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²⁵NATIONAL ENERGY BOARD
³⁵REASONS FOR DECISION

In the Matter of the Application Under
Part IV of the National Energy Board Act
(Rates Application)
of

TransCanada PipeLines Limited

July 1978

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Part IV of the National Energy Board Act

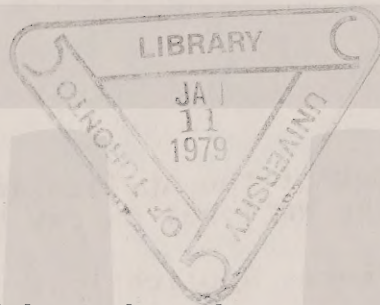
(Rates Application)

of

TRANSCANADA PIPELINES LIMITED

July 1978

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(i)

NATIONAL ENERGY BOARD

IN THE MATTER OF an application of TransCanada
PipeLines Limited for Orders pursuant to Sections 50 and 53
of the National Energy Board Act.

File: 1562-T1-11

HEARD at Ottawa, Ontario on:

24, 25, 26, 29, 30, 31 May;

1, 2, 5, 6, 7, 8, 9, 12, 13, 15 and 16 June 1978.

BEFORE:

Mr. C.G. Edge	Presiding Member
Mme L.M. Thur	Member
Mr. J.R. Jenkins	Member

APPEARANCES:

C.L. Campbell	)	TransCanada PipeLines Limited
Alban Janin)	
R.D. Hall	)	Alberta Petroleum Marketing Commission
François Lemieux	)	British Columbia Petroleum Corporation
J.B. Ballem, Q.C.	)	Canadian Petroleum Association
E.H. Gaudet	)	Chevron Standard Limited
G.D. Nichols	)	Consolidated Natural Gas Limited
J. Smith	)	Dome Petroleum Limited
H. Ferguson	)	Dow Chemical of Canada, Limited
E.B. McDougall)	
Jean-Marc Fortier	)	Gaz Métropolitain, inc.
Jean Richard)	
D.K. Singer	)	Greater Winnipeg Gas Company
C.K. Yates	)	Independent Petroleum Association of Canada
Peter Thompson	)	Industrial Gas Users Association

(ii)

James Redgwell	)	Attorney General for Manitoba
A.R. O'Brien	)	Midwestern Gas Transmission Company
R.G. Atkey	)	Norcen Energy Resources Limited
D.K. Singer	)	Northern and Central Gas Corporation Limited
B.G. Armstrong	)	Ontario Ministry of Energy
E. Sherwood)	
John Stein	)	Pan-Alberta Gas Ltd.
D.G. Hart	)	PanCanadian Petroleum Limited
Bernard Flynn	)	Attorney General for Quebec
J.A. Griffin, Q.C.	)	Saskatchewan Power Corporation
John Hopwood	)	The Alberta Gas Trunk Line Company
Hugh Williamson	)	Limited
J.H. Farrell	)	The Consumers' Gas Company
P.E. Brace)	
E.B. McDougall	)	Trans-Northern Pipe Line Company
J.B. Joly	)	Union Gas Limited
A. Mudryj)	
John McCauley)	Westcoast Transmission Company Limited
A. Bigu�)	National Energy Board
P.G. Griffin)	

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ABBREVIATIONS OF NAMES

Canadian Institute of Chartered Accountants	"CICA"
Canadian Petroleum Association	"CPA"
Consolidated Natural Gas Limited	"Consolidated"
Gaz Métropolitain, inc.	"Gaz Métro"
Industrial Gas Users Association	"IGUA"
National Energy Board	"the Board"
National Energy Board Act	"NEB Act"
Pan-Alberta Gas Ltd.	"Pan-Alberta"
PanCanadian Petroleum Limited	"PanCanadian"
Petroleum Administration Act	"PAA"
Saskatchewan Power Corporation	"Saskatchewan Power"
TransCanada PipeLines Limited	"TransCanada", "the Company" or "the Applicant"

ABBREVIATIONS OF TERMS

<u>Term</u>	<u>Abbreviation</u>
Annual Contract Quantity	"ACQ"
Authorized Overrun Interruptible	"AOI"
Billion cubic feet	"Bcf"
British thermal unit	"Btu"
Cents per million British thermal units	"¢/MMBtu's"
Contract Demand	"CD"
Peaking Service	"PS"
Per thousand cubic feet	"/Mcf"
Temporary Winter Service	"TWS"

THE APPLICATION

By an application dated 28 February 1978, Trans-Canada PipeLines Limited ("the Applicant", "the Company" or "TransCanada") applied to the National Energy Board ("the Board") under Sections 50 and 53 of the National Energy Board Act ("NEB Act") for orders fixing the just and reasonable rates or tolls TransCanada may charge for or in respect of gas sold by it in Canada and for transportation services to Saskatchewan Power Corporation ("Saskatchewan Power"), Consolidated Natural Gas Limited ("Consolidated") and Gaz Métropolitain, inc. ("Gaz Métro"), and disallowing any existing tariffs or rates or tolls or portion thereof that are inconsistent with the just and reasonable rates or tolls so fixed.

The Applicant also applied under Section 53 of the Petroleum Administration Act ("PAA") and Regulations pursuant to Part III thereof, for special and general orders of the Board approving the price to be paid to acquire gas for removal from the Province of Alberta, and revoking any previous orders inconsistent therewith.

The application contained proposed rates based on a cost of service employing a base period of the 12 months ending 31 October 1977 and a test period of 12 months commencing 1 August 1978. It included a request for approval for accounting and rate making purposes of the adoption by TransCanada of normalized tax accounting.

By Order RH-1-78 dated 10 April 1978, the Board set down for hearing that portion of the application made under Sections 50 and 53 of the NEB Act. Order AO-1-RH-1-78 clarified the requirements for service of material as set out in the Hearing Order. These orders are included as Appendix I.

The hearing commenced in Ottawa on 24 May 1978 and continued for 17 days. The total number of interventions filed was 28; several of the intervenors presented witnesses and participated actively in the hearing. Their positions were given careful attention and are discussed in appropriate sections following herein.

In the course of the hearing, a Motion was made by the Industrial Gas Users Association ("IGUA") for an Order dismissing that part of the application of TransCanada respecting "... a change in TransCanada's method of accounting for income taxes from the flow-through method to the normalized method." It was contended that that part of the application of TransCanada was Res Judicata, by virtue of the Board's Order No. TG-2-75, dated 12 June, 1975. The Board heard arguments on the Motion and dismissed it. The Board's Reasons for that decision are part of the record of the proceedings.

INCOME TAXESIntroduction

This aspect of the application concerned the Applicant's proposal to change from the flow-through to the normalized method of calculating the income tax cost to be included in cost of service for the test year.

Under the "flow-through" method, a company includes as tax expense in a given year the income taxes payable in that year. Under the "normalized" method, the tax expense for a given year is based on accounting income, whether or not the taxes are payable in that year. Accounting income differs from taxable income primarily because straight line depreciation is used for accounting purposes while capital cost allowances are used to compute taxable income. Capital cost allowances usually exceed straight line depreciation in the early years of operation and under the normalized method income taxes are recognized as an expense in those years, even though such taxes will not be payable until future years.

The effect of normalization on non-regulated businesses is different from that on companies whose revenues are regulated through an allowable cost of service methodology.

In a non-regulated business a change in the early years from "flow-through" tax accounting to "normalized" tax accounting would not result in increased revenues, but would cause earnings after taxes to be reduced in the years

immediately after the change, and increased in later years.

By contrast, for the company where revenues are regulated in the aforesaid manner, the effect of the change would usually be to cause revenues to increase in the earlier years. However, earnings after taxes would not be directly affected in those years because the increased revenues would equal the increased income tax expense in cost of service.

The recommendations of the Canadian Institute of Chartered Accountants ("CICA"), in effect, require all companies to normalize taxes with two exceptions. The Institute, in subsection 56 of section 3470 of its Accounting Recommendations dated September 1973, states:

"The Research Committee believes that the general principles of income measurement should be the same in regulated industries as they are in other enterprises, and that the income tax allocation basis should have equal relevance. While the opinion was expressed that exemptions can only open the door to the submission of what may be considered equally valid circumstances, the Research Committee recognized that there may be rare cases where compliance with the recommendations of this Section would be inappropriate for the purpose of achieving a proper matching of costs and revenues. Two examples might be:

- (a) a company in the regulated utility field under the jurisdiction of an authority which allows as an element of cost in setting rates only the amount of taxes currently payable;
- (b) a company whose revenue is determined by long-term contracts under which costs incurred are reimbursed and such costs are defined to include only taxes payable for the period."

Another feature of normalized taxes related to regulated companies as opposed to non-regulated companies pertains to the treatment of the tax effect of past timing differences described by the Applicant as "unrecovered deferred income tax costs". Regulated companies generally seek to recover the tax effect of past timing differences through increased revenues by amortizing them in the future cost of service over a specified number of years. This feature is often referred to as "catch-up". Non-regulated companies are not in the position to do this.

1975 Application

In 1975, as part of an application for new rates, TransCanada applied to change to the method of normalized taxes, including a request for "catch-up".

That application was made at a time of great uncertainty for the gas industry when a shortage appeared to be developing and a new pricing scheme under the Petroleum Administration Act had not yet been finalized.

The decision of the Board in that case is contained in its Reasons for Decision of June 1975, page 4-8, as follows:

"... In the circumstances of this case, and considering the situation at this particular juncture in the evolution of TransCanada, the Board is of the view that the Applicant has not presented a case sufficient to warrant a change of such significance at this time. Accordingly, TransCanada's application to normalize its tax accounting is denied."

Present Application

In this application, TransCanada requested both a change from flow-through to normalized income taxes on current utility income, and a "catch-up" of the unrecovered deferred income tax costs arising from the prior use of flow-through tax accounting for utility income over an amortization period of 22.25 years - the anticipated period of its removal permit for gas from Alberta.

The Applicant also proposed to allow a credit in cost of service of 8.80 per cent (the embedded cost of debt) of the average balance of income taxes recovered but not paid during the test year. However, to the extent that TransCanada could invest these funds and earn a return equivalent to that on the rate base, the equity shareholders would benefit from the difference or "wedge" between the rate of return on rate base of, say, 10.9 per cent and the cost of embedded debt of, say, 8.80 per cent.

The proposed change from flow-through to normalization with "catch-up", and its subsequent effect on rate design, was the most contentious issue in the hearing. It was clear that the main burden of the change, if allowed, would fall on the producers because the method of pricing Alberta natural gas for domestic purposes is based on a single Toronto reference price and this shelters distributors in the Eastern Zone from the effect of a change.

In general, two Ontario distributors supported the change to normalized tax accounting; producers, Saskatchewan Power, IGUA and provincial governments opposed it.

The evidence on the effect of the change was not basically in dispute, although certain parties questioned the effect on the valuation of assets caused by using up capital cost allowances in excess of depreciation.

The evidence related mainly to the economic impact of the change, the effect on TransCanada's ability to raise new capital on favourable terms, and professional accounting views on cost incurrence, and matching of costs and revenues.

The approximate effect on the imputed Alberta border price in the test year of the change to normalized taxes was said to be two cents per Mcf and a further two cents if the "catch-up" feature were included. The effect in later years could increase to nine cents, subsequently declining to zero and reversing.

The economic arguments against normalization of taxes focussed on the disincentive to producers and the conflict with the government policy of moving towards self-reliance in energy. This policy, it was claimed, would be impeded because less money would be available to producers for exploration, funds would be transferred from a higher risk sector (exploration) to a lower risk sector (pipeline), and tax would be paid before it needed to be paid.

On the ability to raise new capital, TransCanada pointed out that it was competing for capital with other companies, virtually all of which were on a normalized tax basis, and that a normalized tax basis would improve interest coverage ratios. Thus, by making it easier to attain an "A" bond rating from international rating agencies, TransCanada's ability to obtain financing in the United States and international money markets would be enhanced and the cost of future borrowing reduced. It was also indicated that TransCanada's need for external financing exceeded the additional cash generated by normalized taxes but that, absent major new projects, financing could be accommodated by traditional means. Several potential major new investments were identified, but in the prevailing circumstances no forecast of future outlays could be relied on with any degree of certainty.

The professional accounting views focussed on the measurement of periodic income and costs. It was clear that the CICA would like all companies as a matter of principle to use the normalized (tax allocation) method of accounting for income taxes. The evidence indicated that in regulated companies the use of either the normalized or the flow-through methods of accounting for income taxes conforms with the principle of matching costs and revenues. Therefore,

that principle was not a determinant factor in this proceeding. Of more relevance was the ascertainment of appropriate costs to be included in the cost of service, since revenues developed in rate design are made equal to the allowable cost of service.

There was agreement among accounting witnesses that the provision for income taxes for non-regulated companies was attributable to "accounting" profit and was a cost incurred in the period in which the relevant profits were earned. Likewise, when the regulator recognized deferred taxes as a cost to be included in cost of service for determining rates, accountants recognized those taxes as a cost incurred in the period concerned.

There was less certainty on the CICA's position when a regulated company changed from flow-through to normalized taxes: the CICA's Handbook does not refer to the "catch-up" feature of deferred tax liability in the specific circumstances of regulated companies.

Several intervenors referred to the recent decision of the Board ⁽¹⁾ on income taxes of Westcoast and pointed out that the case for a change in the method of tax accounting was not as compelling for TransCanada compared with the Westcoast situation, both with regard to normalized tax accounting and to the "catch-up" feature.

(1) "National Energy Board Reasons for Decision... May 1978"

Views of the Board

Since the first rate case, TransCanada's rates and tolls have been regulated by the Board on a "cost-based" approach, by which a cost of service is determined for a test year, and then used to determine the total revenue requirements of the company as the basis for the design of rates and tolls. Of necessity, this approach raises the question of what is the appropriate basis for the recognition of costs to be included in the cost of service for rate-making purposes. In dealing with this issue, the Board has generally been guided by professional accounting standards, although the Board recognizes that such accounting standards are not binding upon it for rate-making purposes. The Board must be guided by the standard of what method of cost recognition is the most appropriate for rate-making purposes. The considerations relevant to that issue would vary with the nature of the particular item of expenditure being considered and the overall circumstances surrounding the operations of the particular company being regulated. There are within TransCanada's existing cost of service certain items which do not constitute actual cash out-lays by the company in the test period. An example of this type of item is the allowance for depreciation included in the cost of service. On the cash basis of accounting, the cost of an

asset acquired would be charged against income in the year of acquisition. For a regulated company, that would mean that the entire cost of the asset would be charged in the tolls in one year, even though the asset would be used over several years. Under the accrual and deferral accounting approach, the cost of an asset is charged proportionately in the tolls charged for each year over the service life of the asset. The latter approach has been applied by the Board for rate-making purposes because it results in a more equitable allocation of the cost of an asset between the various customers obtaining the use of that asset, and recognizes the value of that asset over its service life.

The flow-through method of accounting for income taxes is in effect a cash basis of accounting for income taxes. By reason of the higher rates of capital cost allowance permitted for income tax purposes, the flow-through approach tends to delay the incidence of income taxes in the earlier years of a company's operations, even though the rates and tolls, as in TransCanada's case, have been based upon the lower levels of booked depreciation rather than the higher levels of capital cost allowance permitted in those years for income tax purposes. The effect of this is to place a greater burden upon users of the pipeline system in the later years. In effect the change to normalized tax

accounting spreads the incidence of future tax more evenly over the remaining life of the pipeline. It appears to the Board that a greater equity is achieved as between various users over the remaining life of the pipeline if depreciation and income taxes are reflected in the tolls from year to year upon the same basis, rather than on two different bases.

The Board recognizes that a change to normalized taxes would reduce the funds available to producers. The significance of such a change is less clear because 30-45 per cent of the additional funds paid to producers under the flow-through system is paid by them as royalties, and all the remaining funds after taxes are not necessarily reinvested in exploration in Canada. Furthermore, the effect on the producers of implementing normalized taxes by TransCanada should be set in the perspective of changes in natural gas prices over the past, say, three years. The pricing structure under the PAA has been in effect since November 1975 and the flow-back to TransCanada's producers has increased from approximately 64 cents per MMBtu's in October 1975, to \$1.57 in March 1978. A further increase results because the increase in the Toronto Reference Price of 15 cents per MMBtu's, announced since the hearing closed, exceeds the increase in average transmission costs per MMBtu from Alberta to the Eastern Zone as determined in these

proceedings. These increases need to be compared with the effect of a change by TransCanada to normalized taxes in the test year of two cents per MMBtu's and a further two cents if the "catch-up" factor is included.

In the Board's view, the export price of \$2.16 U.S. per MMBtu's in conjunction with the new domestic price of \$2.00 per MMBtu's at the Toronto city gate is adequate to permit the recovery of the full cost of service of TransCanada including normalized taxes, and also provide adequate net backs to producers. Moreover, in the Board's view, the change to normalized tax accounting should not cause a significant disincentive to continued exploration and development.

Canada is committed to the aim of achieving self-reliance in relation to energy. Natural gas plays a central role in this regard because of the relative importance of this form of energy in Canada. Natural gas developments will be important in the future and such developments should include the whole natural gas system from exploration, development and production to transmission and distribution.

In order to be financially prepared for possible future projects, it is important that the transmission companies too have ready access to capital markets with

favourable ratings and at favourable interest rates. Allowing TransCanada to collect current normalized income taxes should contribute to this objective.

After giving consideration to all relevant circumstances, the Board has concluded that it would be more appropriate to use the normalized method of calculating income taxes as the basis for recognizing the income tax cost to be included in TransCanada's cost of service for rate-making purposes.

The Board has also concluded that the Applicant's proposal to include in cost of service a credit allowance on the average balance of income taxes recovered but not paid in the test year is not the most appropriate method, under the present circumstances. In lieu of that method, the Board has found that the average of the deferred tax balances in the test year should be deducted from the rate base.

The Board recognizes that the case of TransCanada for full recovery of costs, including normalized and "catch-up" taxes, was substantially different from that of Westcoast, primarily because of the smaller proportion of exports transmitted by TransCanada. For this reason, and taking into account the need for continued stimulus to the exploration and development sector, the Board has decided not to allow the amortization of the past deferred tax liability

("catch-up" taxes) in the cost of service. In making this decision, the Board has recognized that either the Company would need to revert to flow-through tax accounting when taxes payable exceed normalized taxes, or the deferred tax liability will have to be amortized in the cost of service starting at some point after the end of the test year.

NEB Adjustments re Income Taxes

The adjustments shown in Chapter 6 are explained as follows:

Income Taxes - Amortization - \$23,342,185

The deletion of this amount from the test year cost of service was required as a result of the Board's decision not to allow "catch-up" taxes.

Income Taxes - Current - \$8,392,677

The Board has recalculated the current normalized taxes taking into account all adjustments to cost of service including return on rate base, to be \$68,341,480.

The adjustment shown above represents the difference between the Applicant's figure of \$76,734,157 and the Board's recalculation.

In its recalculation, the Board has followed the general methodology used by the Applicant, but in addition calculated the amount for deferred taxes to be deducted from rate base, a calculation not provided by the Applicant because of its proposed 8.8 per cent credit allowance.

Calculation of Income Taxes Payable in 1978

TransCanada is expected to become liable for income taxes in the calendar year 1978, and a calculation was therefore required of the amount of income taxes applicable to the seven-month period before the test year begins on 1 August 1978 and to the five-month period afterwards. Such a calculation was necessary to estimate the amounts for each of the components of the normalized taxes for the test year, namely, the taxes payable and the deferred taxes components.

TransCanada used a method of calculating taxable income on a monthly basis for the first seven months of 1978 which utilized capital cost allowances and prior year losses to the extent required to reduce the taxable income to zero for that period. This resulted in no income tax being considered payable until after the start of the test year. This approach was justified by the Applicant on the grounds that its regulated revenues for the first seven months did not include a component for income taxes.

The Canadian Petroleum Association ("CPA") questioned that method, suggesting that the estimated taxes payable for the calendar year 1978 should be prorated on an equal monthly basis and that under its method there might be taxes payable for the period in 1978 prior to the beginning

of the test year. However, such taxes could not be collected through the existing rates which contained no provisions for income taxes, thus creating an apparent conflict with the previous CPA position on flow-through taxes that all taxes would be recoverable through rates.

The CICA's Handbook does not deal specifically with the situation outlined above, but neither the TransCanada nor the CPA method appeared to be in conflict with sound accounting principles.

Because of the desirability of matching costs and revenues, the Board has accepted the method proposed by TransCanada.

RATE BASE

TransCanada's proposed rate base was submitted as being the average projected utility investment (exclusive of investment in Alberta) for the test period 1 August 1978 to 31 July 1979. The Board has adjusted the rate base for the reasons indicated in this Chapter, as follows:

	<u>RATE BASE</u>			
	<u>Application As Filed</u>	<u>Application As Revised*</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Gross Plant	\$1,732,320,983	\$1,728,159,189	\$ (2,211,716)	\$1,725,947,473
Accumulated Depreciation	(413,016,148)	(412,958,924)	30,412	(412,928,512)
Contributions in aid of Construction	<u>(1,491,884)</u>	<u>(1,491,884)</u>	<u>-</u>	<u>(1,491,884)</u>
Net Gas Plant	\$1,317,812,951	\$1,313,708,381	\$ (2,181,304)	\$1,311,527,077
Working Capital	37,692,935	39,788,307	1,167,984	40,956,291
Unamortized Owning Costs	626,870	626,870	-	626,870
Deferred Charges: Northern Projects	<u>35,451</u>	<u>35,451</u>	<u>-</u>	<u>35,451</u>
	\$1,356,168,207	\$1,354,159,009	\$ (1,013,320)	\$1,353,145,689
Average Deferred Income Taxes	<u>-</u>	<u>-</u>	<u>(6,475,429)</u>	<u>(6,475,429)</u>
Total Rate Base	<u>\$1,356,168,207</u>	<u>\$1,354,159,009</u>	<u>\$ (7,488,749)</u>	<u>\$1,346,670,260</u>

* This column incorporates revisions to the application made by TransCanada based on matters raised in the course of the hearing.

Net Gas Plant

The following adjustments have been made:

Gross Plant

Additions to plant in test year	(\$2,211,716)
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Accumulated Depreciation

Additions to plant in test year	<u>30,412</u>
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Net Adjustment	<u>(\$2,181,304)</u>
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These adjustments are explained as follows:

(a) Additions to Plant in Test Year

TransCanada included additions to transmission plant amounting to \$104,369,456 in its application. An analysis of the information submitted in response to the CPA request showed that the above amount included Class "C" construction items, other than pipe replacements, rerating and requalifications, amounting to \$26,249,834. Of that amount, "Class "C" items worth \$5,331,372 were to be placed in service during 1978 and \$79,167 in 1979.

In the experience of the Board, TransCanada has rarely spent the amounts authorized in connection with its Class "C" applications. Furthermore, the evidence in this hearing revealed that in 1977 the Applicant spent only 68 per cent of the amount approved for its 1977 Class "C" facilities. Based on its review of the Applicant's history and the evidence in this case, the Board has disallowed \$2,132,549 of the Class "C" (Other) items proposed to be placed in service during

1978 (40 per cent of \$5,331,372), and in addition has disallowed \$79,167 of Class "C" (Other) items which were projected to be placed in service near the end of the calendar year 1979. The total of these two adjustments amounts to (\$2,211,716).

(b) Accumulated Depreciation

As a result of the disallowance of \$2,211,716 of Class "C" items as additions to plant the Board has reduced annual depreciation by \$60,822 and accumulated depreciation (average) by \$30,412.

(c) Rerating Costs

Some intervenors argued that TransCanada would fail to use, during the test year, the extra capacity resulting from the rerated facilities. They held that the entire rerating cost or at least part of it (approximately \$10.2 million) should have been deleted from the test year rate base.

The Board recognized that there will be a fuel saving of up to 1.9 Bcf per year as a result of the increased operating pressure, even if there were no increase in throughput as a consequence of the rerated facilities.

The Board has accepted TransCanada's final argument that an amount of \$4,161,794 as part of the rerating cost should be reduced from the addition to gross plant for the test year. The reduction of \$4,161,794 from \$18,034,439 was due to the postponement of the completion of the rerating program and was reflected in the Applicant's revised amounts.

Working Capital

The following summary shows the amounts authorized by the Board as the Applicant's working capital:

	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Cash	\$ 6,981,251	\$ (125,433)	\$ 6,855,818
Materials and Supplies	13,086,602	-	13,086,602
Transmission Line Pack	13,618,754	1,811,179	15,429,933
Prepayments and Deposits	554,250	-	554,250
Transmission by Others - Average Unamortized Deferrals	5,547,450	(517,762)	5,029,698
	<u>\$ 39,788,307</u>	<u>\$ 1,167,984</u>	<u>\$ 40,956,291</u>

The NEB adjustments shown are explained as follows:

(a) Cash

Cash working capital in previous TransCanada rate cases has been established as one-eighth of operations and maintenance expense after deducting fuel costs and miscellaneous gas usage costs and eliminating certain non-cash items. The Board in this case continues the previously established method for determining working capital.

The adjustment of \$(125,433) reflects 1/8 of the adjustments to the following items in Chapter 4:

Reduction of Salaries and Fringe Benefits	\$ 370,480
Reduction of Transmission expenses	602,183
Reduction of Rent	30,801
	<u>\$ 1,003,464</u>
Adjustment: 1/8 of 1,003,464	<u>\$ 125,433</u>

(b) Transmission Line Pack

The Applicant projected the average value of transmission line pack to be \$13,618,754 for the test year. This was based on a volume of 11.0 Bcf of gas with an average heating content of 995 Btu/cf and an imputed Alberta border price of \$1.24429/MMBtu's (11,000,000 x .995 x \$1.24429). The average heating value and the imputed Alberta border price used above were those as revised by the Applicant during the hearing.

The Board has adjusted transmission line pack to reflect the new Alberta border price of \$1.40977/MMBtu's resulting in an increase of \$1,811,179. (Refer to Gain on Revaluation of Transmission Line Pack in Chapter 4 of these Reasons.) The calculation of the imputed Alberta border price is shown on Appendix V.

(c) Prepayments and Deposits

TransCanada projected the average balance of prepayments and deposits to be \$554,250 for the test year. The largest component of this amount was prepaid insurance and the Applicant explained it was derived by calculating the average of the monthly balances in the test year. The required normalization adjustment of \$334,979 is the difference between \$554,250 and the 31 October 1977 balance of \$219,271.

An intervenor questioned the adjustment, suggesting the Applicant should have added one-twelfth of the projected increase in the test year insurance premiums to the base year average.

In past TransCanada rate cases the accepted method of calculating prepayments and deposits has been to project the base year closing balance as the average for the test year.

The Board acknowledges that in this application the balance at 31 October 1977 was not representative of the yearly average and, because the balance can vary widely from month to month, the Board has therefore accepted the projected prepayments and deposits used by the Applicant.

(d) Transmission by Others -
 Average Unamortized Deferral

The Applicant included in working capital its average investment in the unamortized balance during the test year. (The balance in the account at the beginning of the test year is reduced to zero by the end of the test year.)

The total investment represented the accumulation of monthly variances between the actual charges by Great Lakes and Union and the amounts provided therefore in the Applicant's authorized rates, plus monthly carrying charges, over the period 1 September 1976 to 31 May 1978, plus further carrying charges from 1 June to 31 July 1978.

For reasons outlined in the Cost of Service chapter the Board has disallowed the accumulated carrying charges to 31 July 1978 from cost of service (\$1,035,525). At the same time the Board has allowed the actual variances

from 1 September 1976 to 31 May 1978, totalling \$10,059,375, in the cost of service for the test year.

However, as the Applicant would only recover the \$10,059,375 gradually in its rates over the test year, the Board has found it reasonable to allow the average unamortized amount (\$5,029,688) exclusive of carrying charges, in rate base. The adjustment of (\$517,762) deleted the amount for carrying charges which the Applicant had included in its rate base.

Average Deferred Income Taxes (\$6,475,429)

In the Income Taxes chapter of these Reasons the Board has decided to deduct the average amount of income taxes deferred in the test year from rate base, in lieu of the treatment proposed by the Applicant, viz. inclusion of a credit amount in its provision for income taxes of 8.8 per cent of the average balance of income taxes expected to be recovered in the test year cost of service but not paid during that year.

For further explanations see Chapter 2.

COST OF SERVICE
(Excluding Income Taxes and Return)

TransCanada estimated its Cost of Service, excluding income taxes and return, for the test year commencing 1 August 1978 to be \$1,609,044,688 as shown in the column under Application As Revised* in the summary below.

	<u>Cost of Service</u> <u>(Excluding Income Taxes and Return)</u>			
	<u>Application As Filed</u>	<u>Application As Revised*</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Cost of Gas Sold	\$1,344,999,411	\$1,326,273,506	\$176,383,109	\$1,502,656,615
Transmission by Others	103,035,523	105,314,020	851,204	106,165,224
Operation and Maintenance	125,290,126	125,394,897	(674,239)	124,720,658
Depreciation	51,707,332	51,592,883	(60,822)	51,532,061
Taxes Other Than Income Taxes	14,206,329	14,206,329	-	14,206,329
Other Operating Income	(3,249,991)	(3,368,867)	(126,900)	(3,495,767)
Miscellaneous Revenue	(11,076,455)	(10,368,080)	(431,712)	(10,799,792)
Total Cost of Service (Excluding Income Taxes and Return)	<u>\$1,624,912,275</u>	<u>\$1,609,044,688</u>	<u>\$175,940,640</u>	<u>\$1,784,985,328</u>

* This column incorporates revisions to the application made by TransCanada based on matters raised in the course of the hearing.

Cost of Gas Sold

Under the terms of a Federal/Alberta agreement the price of Alberta gas sold in TransCanada's Eastern Zone will increase from \$1.85/MMBtu's to \$2.00 on 1 August 1978 for CD Service at 100 per cent load factor and the effect of this change in price is reflected in the Board's Decision.

The cost of gas at the Alberta border is determined by deducting TransCanada's cost of transmission from the price applicable in the Eastern Zone. Having determined all other components of cost of service including return, the Board has found the Applicant's cost of transmission from the Alberta border to the Eastern Zone to be 59.023¢/MMBtu's which, when subtracted from the Toronto city gate price of \$2.00/MMBtu's resulted in an "imputed Alberta border price" of 140.977¢/MMBtu's rather than 124.429¢/MMBtu's as submitted by the Applicant, effective 1 August 1978. By multiplying the "imputed Alberta border price" of 140.977¢/MMBtu's by the Applicant's projected test year sales volumes expressed in Btu's (on the basis of 995 Btu's/cf), the cost of gas sold for the test year was determined to be \$1,502,656,615. The adjustment was calculated as follows:

$$1,065,887,780 \text{ MMBtu's} \times (140.977\text{¢} - 124.429\text{¢}) = \$176,383,109$$

Transmission by Others

TransCanada projected its cost of transmission by others for the test year to be \$105,314,020. The Board has adjusted this to \$106,165,224, as shown in the following summary.

	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Great Lakes:			
(a) Basic Charges	\$105,912,085	-	\$105,912,085
(b) Fuel Adjustment	(15,353,579)	1,893,834	(13,459,731)
Union Gas	3,341,160	-	3,341,160
Deferral Adjustment	11,094,900	(1,035,525)	10,059,375
Saskatchewan Power	181,459	-	181,459
Steelman Gas	137,995	(7,105)	130,890
	<u>\$105,314,020</u>	<u>\$ 851,204</u>	<u>\$106,165,224</u>

The adjustments shown in the above summary are explained as follows:

(a) Great Lakes Fuel Adjustment

The Federal/Alberta Natural Gas Pricing Agreement provides that fuel used in the transmission of Canadian gas in the Great Lakes system will be purchased by TransCanada at the "imputed Alberta border price" for gas consumed in Canada. The Great Lakes fuel adjustment is a reduction of the cost of transmission to offset excess revenue resulting from fuel volumes sold to Great Lakes at the export price. The reduction corresponds to the excess of the export price over the sum of the "imputed Alberta border price" and the transportation cost from the Alberta border to the international border at Emerson, Manitoba.

The Board's adjustment of \$1,893,834 for this item is required to take into account the net effect of all the Board's adjustments which alter the "imputed Alberta border price" and the transportation costs on the Applicant's system from the Alberta border to Emerson.

(b) Deferral Adjustment

TransCanada's cost of transmission by others included a deferral adjustment of \$11,094,900. Of this amount, \$1,035,525 represented the accumulated carrying charges projected to 31 July 1978 on deferred account balances recorded for the period 1 September 1976 to 31 May 1978. The remaining \$10,059,375 represented the deferred

account balance as at 31 May 1978. The Applicant demonstrated that the deferred account balance included a major variance resulting primarily from exchange variances between the Canadian and United States dollars, and submitted that a carrying charge with respect to deferred charges of such magnitude was an appropriate cost that should be included in the cost of service.

The Board has disallowed the amount of \$1,035,525 for carrying charges, in recognition of the Board's Reasons for Decision of December, 1976 which disallowed carrying charges beyond 31 August 1976. It is the Board's view that the allowance of carrying charges for this period could be considered to be retroactive rate making.

The Board has found it appropriate to include the 31 May 1978 deferred account balance of \$10,059,375 in the cost of transmission for others. The Board directed that, for accounting purposes, TransCanada should retain this amount in a sub-account of its deferral account, separate from those accounts recording variances after 31 May 1978. The amount of \$10,059,375 should be amortized to transmission by others in equal monthly instalments, over the test year commencing 1 August 1978.

In view of TransCanada's experience in recording large exchange variances in its deferral accounts which were not offsetting, and uncertainties respecting future cost variances, the Board has hereby amended its previous instructions and now requires carrying charges to be recorded by means of a monthly adjustment of the transmission by others deferral accounts by one-twelfth of the sum of the prime rate plus one per cent, beginning 1 August 1978.

(c) Steelman Gas

The Board's adjustment of \$ (7,105) to the Applicant's calculation of the test year transportation costs for Steelman gas was necessary to reflect cost changes relevant to the Steelman gas caused by the Board's change in the "imputed Alberta border price".

Operation and Maintenance

Adjustments made by the Board to operation and maintenance expense have resulted in a net reduction of \$674,239, made up as follows:

	<u>Adjustment</u>
Unaccounted for Gas	\$ (5,452,454)
Revisions to Cost of Gas Used in	
Operations	7,649,215
Wages and Benefits	(370,480)
Gains on Revaluation of Line Pack Gas	(1,811,179)
Transmission Expenses	(602,183)
Departmental Expenses - Rent	(30,801)
Advances to Northern Projects	<u>(56,357)</u>
	<u>\$ (674,239)</u>

(a) Unaccounted for Gas

TransCanada projected the volume of lost and unaccounted for gas to be to 7,340 MMcf for the test year. The Applicant stated that this was equivalent to 0.5 per cent for the projected measured input to the Applicant's pipeline system during the test year. The Applicant's estimate was based on the average unaccounted for losses experienced during the three year period 1975-1977. The Board has noted that subsequent to the Board Decision TG-1-76, the Applicant had diligently attempted to find out and correct the causes for gas losses so that the unaccounted for gas during 1977 and 1978 was significantly reduced. The Board is convinced that by further corrective operational and maintenance procedures, the Company should be

able to maintain the unaccounted for gas losses at or below a level of 0.2 per cent of the measured input.

The Board, therefore, has adjusted the "Unaccountable Losses" shown in the application under "Cost of Gas Sold - 12 Months Ending 31 July 1979" to be 0.2 per cent of the "measured input". This is reflected as follows:

<u>Particulars</u>	<u>MMcf</u>	<u>MMBtu's @ 995 Btu's/cf</u>	<u>Amount at Imputed Alberta Border Price of 124.429¢/MMBtu</u>
Submitted by the Applicant	7,340	7,303,300	\$9,087,423
Amended by the the Board	2,936	2,921,320	3,634,969
			<u>\$5,452,454</u>

(b) Revisions to Cost of Gas Used in Operations

The Board has adjusted the following costs to reflect its finding of an "imputed Alberta border price" of 140.977¢/MMBtu's rather than 124.429¢/MMBtu's.

Cost of heating fuel, compressor fuel, operating uses and unaccounted for gas	\$7,430,597
Sales tax on compressor fuel	218,618
	<u>\$7,649,215</u>

(c) Wages and Benefits

The Applicant in its estimate of wages provided for an increase of 8 per cent effective 1 January 1979. A witness for TransCanada stated that this was based on a

consideration of the consumer price index versus the salary increase allowed by the Anti-Inflation Board and, secondly, that this 8 per cent was in fact a 6 per cent general increase plus a 2 per cent merit increase. TransCanada did not provide adequate evidence on productivity improvements in relation to the proposed merit increase; rather, the witness stated that this was a continuation of TransCanada's policy prior to the controls imposed by the Anti-Inflation Board.

In view of the fact that Canada is just emerging from a period of rapid inflation, partially brought under control by the Anti-Inflation Board, and in view of Canada's recent disappointing economic performance, the Board felt it would be remiss in allowing what appears to be an inflationary increase in wages. The Board concludes that the total increase, general increase plus merit increase, should be limited to 6 per cent and therefore has reduced the Applicant's normalization of wages and benefits by \$370,480.

(i) Merit Increases and Productivity

The Board had difficulty in ascertaining whether significant improvement in the productivity of TransCanada PipeLines had taken place.

The following comments refer mainly to future rate cases. It appears to the Board that when a company is regulated on a cost of service basis and seeks to recover

higher costs in increased rates, there is a special onus on the company to demonstrate in a tangible way whether or not improvements in productivity are occurring. In the present case, the number of staff was increasing without significant changes in throughput and the impact of inflation continues to be reflected in higher salaries and in costs of materials and supplies. The Board would have been interested to learn what offsetting improvements had been achieved. It is appreciated that, on examination, TransCanada did identify some of these qualitatively, but more could have been done than was put in evidence in this case.

(ii) Retirement Plan Funding

The Applicant included in its normalization of employee benefits an amount of \$1,429,209 in respect of deficiencies in its pension plan fund.

A review of the retirement plan undertaken by a firm of consulting actuaries showed that a deficiency of \$2,858,418 existed as of 31 December 1977. One-half of this amount was written off by the Applicant in December of 1977.

An intervenor argued that the funding payment was not a recurring item and should therefore be amortized over a longer period, suggesting in the present case three years.

The Board considers that deficiency payments to pension plans now appear to be of a recurring nature and noted that the Applicant had already absorbed one-half of the

pension fund deficiency. The Board has therefore accepted the Applicant's treatment of this item as being reasonable.

(d) Gain on Revaluation of Transmission Line Pack Gas

TransCanada included in operation and maintenance expense an amount of \$519,833 which represented a net loss of \$(519,833) as at 1 August 1978, on the revaluations of line pack gas on 1 February 1978 and 1 August 1978. Details of this amount and Board adjustments are as follows:

	<u>Application As Revised</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Unamortized Balance at 1 August 1978, of the 1 February 1978 Revaluation Gain	\$ 819,288	\$ -	\$ 819,288
Revaluation Gain (Loss) at 1 August 1978	<u>(1,339,121)</u>	<u>1,811,179</u>	<u>472,058</u>
Net Revaluation Gain (Loss) at 1 August 1978	<u>\$ (519,833)</u>	<u>\$ 1,811,179</u>	<u>\$1,291,346</u>

The unamortized balance of \$819,288 at 1 August 1978 represented the portion, not amortized during the period 1 February 1978 to 31 July 1978, of the revaluation gain of \$1,638,576 on 1 February 1978. The projected revaluation loss at 1 August 1978 of \$(1,339,121) reflected the difference between the actual imputed Alberta border price of \$1.36664/MMBtu's at 31 July 1978 and the Applicant's revised imputed Alberta border price of \$1.24429/MMBtu's at 1 August 1978.

The Board, having determined the imputed Alberta border price to be \$1.40977/MMBtu on 1 August 1978, has revalued line pack gas at 1 August 1978 to \$15,429,933 (see Chapter 3). This resulted in a gain on revaluation of line pack gas as at 1 August 1978 of \$472,058 rather than the loss of \$ (1,339,121) projected by the Applicant. The Board, therefore, has adjusted operation and maintenance costs by the amount of (\$1,811,179) to reflect the actual net revaluation gain of \$1,291,346 at 1 August 1978.

(e) Transmission Expenses

TransCanada, in its estimate of other expenses, maintenance parts, lubricants and equipment use has used differing inflation rates as follows:

	<u>1978</u>	<u>1979</u>
Other Expenses	10%	8%
Maintenance Parts	10%	10%
Lubricants	6%	6%
Equipment Use	8%	5.7%

The inflation factors were based on increases experienced in certain price indexes during the period October 1976 to October 1977. These inflation factors are not forecast but rather weighted averages of the year-over-year increases in these indexes at October 1977. An exception is the other expenses category for which the Applicant had used 8 per cent rather than the 9.7 per cent calculated.

The Board believes that using a forecast of inflation is a more appropriate measure of possible increases in these costs than simply the historical experience. Therefore, recognizing the opportunity the Applicant has to apply to the Board if rates and tolls cease to be just and reasonable, the Board has adjusted these categories to allow an inflation rate of 13 per cent of the base year costs (which is equivalent to an annual rate of inflation of close to 7 per cent). The resulting adjustment has reduced the Applicant's normalization of transmission expenses by \$602,183.

(f) Departmental Expenses - Rent

The Applicant has included in its normalization of departmental expenses a projected increase in rents based on the actual 1977 increase. For the same reasons as given in the section on transmission expenses, the Board has found a 13 per cent increase for inflation over a 21-month period to be more appropriate and, accordingly, has reduced the projected rent increase by \$30,801.

(g) Northern Projects

TransCanada's advances and projected advances to Northern Projects totalled \$6,728,641 for the period 1 January 1977 to 31 July 1978, the disposition of the earlier advances having been decided in previous rate cases. Included in this amount was \$169,070 submitted by the Applicant as hearing costs related to the Canadian Arctic Gas Pipeline project.

No intervenor with the exception of Pan-Alberta protested the inclusion of these expenses in the cost of service.

The Board believes that reasonable research costs should be allowed in the cost of service and that expenditure on pipeline research, relative to new sources of supply, should not be discouraged. However, the Board does not believe that all costs of unsuccessful projects should automatically be included in rates with no part of the burden borne by shareholders. Accordingly, the Board has decided to disallow the hearing costs of \$169,070 related to the unsuccessful Canadian Arctic Gas project. The remainder, amounting to \$6,559,571, may be included in cost of service and amortized in equal annual amounts over the next three years, commencing 1 August, 1978. Therefore, the adjustment of \$56,357 shown on page 4 - 7 equals one-third of the disallowed hearing costs.

Depreciation

Depreciation of fixed assets was included in cost of service, as revised, at rates previously authorized by the Board. The Board has reduced by \$60,822 the Applicant's projected amount to eliminate depreciation in respect of Class "C" construction disallowed for inclusion in rate base. (See Rate Base section of these Reasons for Decision, Chapter 3.)

Other Operating Income

The Board's adjustment of \$(126,900) to the Applicant's calculation of other operating income for the test year was necessary to reflect increased revenue from the sale of delivery pressure caused by the Board's change in the "imputed Alberta border price".

Miscellaneous Revenue

The Applicant's projected "Miscellaneous Revenue" for the test year included revenue from sales of peaking service ("PS") and temporary winter service ("TWS"). This revenue projection was based on rates for PS and TWS which include the Applicant's calculations of the "imputed Alberta border price" and the average transportation charge to the Eastern Zone at 100 per cent load factor. As a result of the Board's changes in the "imputed Alberta border price" and the average transportation charge to the Eastern Zone, the revenue from the sale of PS and TWS in the test year is increased by \$494,712.

Also included in the revenue projection for the test year was a sum of \$93,000 resulting from sales meter station charges. As more fully described on page 8-6, the Board has used \$30,000 for revenue from sales meter station charges as a credit to the cost of service.

Accordingly, the Board has found that a total increase of \$431,712 from the revenue projection as revised by the Applicant is appropriate.

(a) Deferral Account re Cost of Gas Used in Operation

TransCanada sought the Board's approval for a deferral accounting procedure whereby it proposed to segregate and record the variances between the actual costs of gas used as compressor fuel, company uses, and losses and unaccounted for gas, and those reflected in rates, and then submit the variances to the Board for disposition in subsequent rate proceedings.

The Board has noted that the cost of gas used in operations including lost and unaccounted for gas relates to the efficiency of the pipeline system and is not beyond the Applicant's control. The Board believes that the approval of the Applicant's proposal to track such costs which are well within its control would leave little incentive for the Company to increase its operating efficiency.

The Board, on the evidence in this hearing, has therefore denied the Applicant's request for a deferral account.

(b) Capitalized Overhead

TransCanada requested that, commencing with the test year, the Board approve a change in the method used to capitalize overhead so that only direct and indirect overhead

costs which vary with the level of construction activity would be capitalized. A witness for the Applicant stated that because of the reduction in construction activities, the Company believes that the amount of overhead capitalized should be reduced, thus maintaining a reasonable level of capitalized overhead.

No intervenor seriously questioned the change to the method requested. The Board, after considering the Applicant's request, has concluded that circumstances concerning the capitalization of overhead have changed and that this is an appropriate time to revise the Applicant's method of capitalizing overhead. The request has therefore been granted.

RATE OF RETURN

The Applicant submitted the following average consolidated capitalization for the test year ending 31 July, 1979.

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Cost Component</u>
	(\$000)	(%)	(%)	(%)
Long-Term Debt	824,793	55.75	8.8	4.9
Preferred Equity	94,291	6.37	7.4	0.5
Common Equity	<u>560,317</u>	<u>37.88</u>	<u>14.5</u>	<u>5.5</u>
	<u>1,479,401</u>	<u>100.00</u>		<u>10.9</u>

Cost of Debt(a) Unfunded Debt

The Applicant employed a cost rate for its estimated unfunded debt of 10 1/4 per cent, being its projected long-term debt rate during the test year.

In cross-examination, the Applicant indicated that the projected short-term cost of debt would be 9 per cent in the test year. Further, a Company witness explained that the \$18,398,000 of projected average unfunded debt would become funded at some point during the test year but he was uncertain as to the exact timing. Because of this timing uncertainty, the Board believes that it would be reasonable to use a rate somewhere between 9 and 10 1/4 per cent. Therefore, it has decided to allow a cost rate of 10 per cent for unfunded debt.

As a consequence of the reduction of available funds resulting from the Board's decisions regarding income taxes and rate of return on common equity, the Board has adjusted the Company's estimate of average unfunded debt upwards to \$34,720,000.

(b) 7 1/4 Per Cent Income Debentures

The effective cost of the Applicant's outstanding 7 1/4 per cent income debentures, after considering the fact that interest paid thereon is not deductible for tax purposes, is 14.314 per cent as calculated by the Board based on the data in the application. A witness for the Applicant testified that the Company would have the option to retire the income debentures in the middle of the test year and that if the cost of replacement debt was less than the cost of the income debentures, the option would be exercised. The Board believes that the Applicant should take the opportunity to retire the income debentures since replacement debt would be considerably cheaper, considering the effective costs of those income debentures. Consequently, the Board has decided to allow the Applicant a cost rate based on the income debentures being outstanding for six months of the test year, with mid-test replacement debt costing 10 1/4 per cent. The Board has concluded that an appropriate cost rate, considering the income taxes associated with six months of interest on the income debentures, would be 12.282 per cent.

(c) Deferred Variances in Estimated Foreign Exchange
Costs on U.S. Dollar Debt Service

In February 1978 TransCanada requested Board authorization to defer exchange variances on United States dollar debt service from par for accounting purposes. In a letter of reply dated 18 May 1978, the Board decided to deal with the request as a part of the present rate case.

The embedded cost of debt in the application included an estimated amount of \$1,986,000 for deferred foreign exchange costs for the period from 1 January 1978 to 31 July 1978. TransCanada did not early in 1978 seek the concurrence of interested parties for the recovery of this exchange loss in its rates for the test year beginning 1 August 1978. In the absence of such concurrence, the Board considers that such a treatment could be considered to constitute retroactive rate making. Therefore, the Board has disallowed the \$1,986,000 deferred foreign exchange variance for the purpose of calculating the cost of embedded debt for the test period. However, the Board believes that it is reasonable to allow the Applicant to reflect future exchange variances in respect of its United States dollar debt service through the use of the requested deferral method and approves the establishment of a deferral account carrying interest at prime commercial bank rate plus one per cent on month-end balances. A direction as to the disposal of the balance in the account will be given by the Board in the next rate proceeding.

(d) Calculation of Over-all Cost of Debt

In reviewing the Applicant's method of calculating cost of debt, based on converting debt at current exchange rates rather than using the value recorded on the balance sheet, it was noted that the application of the United States exchange adjustment to the outstanding average principal of United States issues may result in under-recovery of financing costs. Accordingly, the Board has decided to employ the outstanding average par value principal as recorded in the balance sheet in determining the cost of debt. This decision is consistent with the "Financial Statement Method" approach referred to in the Board's Reasons for Decision in respect of the 1976 TransCanada rate case.

(e) Gain on Repurchases of Bonds and Debentures for Sinking Fund Purposes

The Applicant estimated its gains on sinking fund redemptions on the assumptions that First Mortgage Bonds could be repurchased in the market on a 9.75 per cent yield basis, that Sinking Fund Debentures could be repurchased on a 10 per cent yield basis and that the 5.85 per cent Subordinated Debentures could be repurchased on a 9.75 per cent yield basis. The Board has noted that the Applicant has not shown any gains on sinking fund redemptions for several of the lower nominal rate secured issues. In future rate cases, the Board will expect the Applicant to present details in its supporting schedules, for cost of debt calculations, that clearly indicate the precise amounts attributable to gains on repurchase of bonds and debentures, for each issue.

Further, the Board directs the Applicant to establish a deferral account in which variances between estimated and actual gains on repurchases of bonds and debentures will be accumulated until a subsequent rate case, at which time the disposition of variances will be decided. The deferred amounts will carry interest at the prime commercial bank rate plus one per cent on month-end balances.

(f) Overall Cost of Debt

As a result of the above decisions the Board has determined the overall cost of debt to be 8.81 per cent for the test year as calculated below:

Embedded Cost - Long-Term Debt
For The Test Year Ending July 31, 1979

	Average Principal Outstanding (\$000)	Financial Charges (\$000)
<u>First Mortgage Pipe Line Bonds</u>		
5 $\frac{1}{4}$ % due 1978 (U.S.)	665	35
5 $\frac{1}{2}$ % due 1978	149	8
6 $\frac{1}{4}$ % due 1978 (U.S.)	130	8
6 $\frac{3}{4}$ % due 1978	40	3
5 $\frac{3}{4}$ % due 1983 (U.S.)	25,486	1,465
6 $\frac{1}{4}$ % due 1983	12,266	767
5 $\frac{1}{8}$ % due 1985 (U.S.)	15,446	792
6 $\frac{5}{8}$ % due 1987 (U.S.)	61,588	4,080
8 $\frac{3}{4}$ % due 1992	107,602	9,415
8 $\frac{3}{8}$ % due 1993	60,914	5,102
	<u>284,286</u>	<u>21,675</u>
<u>Sinking Fund Debentures</u>		
10% Series A due 1990	43,654	4,365
9 $\frac{3}{4}$ % Series B due 1990	50,477	4,922
9% Series C due 1991	41,934	3,774
8 $\frac{7}{8}$ % Series D due 1992	86,538	7,680
9% Series E due 1993	89,008	8,011
11 $\frac{1}{2}$ % Series F due 1995	50,000	5,750
9.60% Series G due 1997	72,912	7,000
	<u>434,523</u>	<u>41,502</u>
<u>Income Debentures</u>		
7 $\frac{1}{4}$ % due 1978/81	<u>25,385</u>	<u>3,118</u>
<u>Subordinated Debentures</u>		
5.60% due 1987 (U.S.)	13,399	750
5.85% due 1987	35,963	2,104
	<u>49,362</u>	<u>2,854</u>
Total Long-Term Debt	793,556	69,149
Total Unfunded Debt	34,720	3,472
Amortization of debt discount and expense		545
Gain on sinking fund redemptions		(1,852)
Foreign exchange costs		1,644
Total	<u>828,276</u>	<u>72,958</u>
Embedded Cost - Long-Term Debt		<u>8.81%</u>

Cost of Preferred Equity

The Applicant employed a cost rate for preferred equity of 7.4 per cent. This cost rate was not at issue during the hearing and the Board accepts the Applicant's estimated cost rate.

Rate of Return on Common Equity

In the current application, the Applicant requested a return of 14.5 per cent on an equity component of approximately 38 per cent. Had deferred income taxes been included in the capital structure at zero cost, with no credit to the cost of service, then the applied for rate of return would have been 14.58 per cent, as suggested by a witness for the Applicant. This compared with an equity return of 14.5 per cent on an equity component of approximately 33 per cent granted by the Board following the Company's previous rates application.

As pointed out by one of the Applicant's witnesses, the determination of a fair and reasonable rate of return for common equity involves the use of methods which are, of necessity, indirect and subject to the exercise of judgment.

The Applicant's witnesses testified that their recommended common equity returns were based on several approaches including an appraisal of the Applicant's investment risk, the application of comparable earnings - financial integrity tests and a capital attraction test. In support of these, an examination was made of the extent to

which the equity returns of utilities exceeded the yields on fixed income securities of lesser risk.

In the application of the comparable earnings tests, the Company's witnesses focussed on the earnings of high-grade non-regulated industrials with which utilities compete in the capital market. It was pointed out by one witness that the application of the comparable earnings test required that appropriate adjustments be made for differences in risks and that in his evaluation high-grade industrials incur greater business risks than TransCanada. Both witnesses agreed, based on their analysis of historical returns and economic trends, that the earnings of high-grade industrials would fall in the range of 14-15 per cent during the 1978-79 test period.

The Applicant's witnesses also testified that a comparative analysis of market-to-book ratios was a determinant of a reasonable equity return and that ratios in the range of 115-130 per cent were desirable at the present time in order to provide for the financial integrity of the Applicant's common equity. The Applicant's market-to-book ratio was 117 per cent for the first quarter of 1978. One of the Applicant's witnesses pointed out that the relationship between market-to-book values and equity returns is by no means precise because market prices also reflect other factors, particularly expectations of future earnings.

The Applicant's witnesses used a capital attraction test to infer the rate of return which investors would require in order to commit new equity capital to the Company. The application of this method, by use of a discounted cash flow formula, involved the exercise of considerable judgment due to the limitation imposed upon it by various factors, including the lack of stability in general stock price levels.

The Applicant's witnesses testified that a reasonable return on equity could also be inferred from an examination of the yield differentials maintained in the past between long-term bonds and those of an equity nature in regulated industry.

The Board has given careful consideration to the evidence presented, particularly that evidence relating to the comparable earnings of Canadian industrials which it believes to be representative of reasonable alternative investment opportunities to the Applicant's shareholders. The Board agreed with the Applicant's witnesses that the business risks to which TransCanada is exposed are somewhat less than those of the typical conservative industrial. With respect to financial risk, which is directly related to capital structure, the Board agreed with the testimony presented by the Applicant's witnesses that the increase in

the common equity from approximately 33 to 38 per cent has reduced the financial risk borne by the Company's shareholders.

A witness for the Applicant was concerned about the visibility to the investment public of the Board's proper recognition of the costs and risks arising from the investment of deferred tax funds. The Board has evaluated and given recognition to such costs and risks in its decision regarding rate of return on common equity.

The Board has concluded from the evidence presented that a return of 14.2 per cent on the Applicant's common equity is fair and reasonable for the test year.

Rate of Return on Rate Base

Based on the adjusted capital structure reflecting the estimated increased unfunded debt and the fair and reasonable costs of debt, preferred and common equity, the overall cost of capital for TransCanada is 10.75 per cent as computed hereunder.

	<u>Amount</u>	<u>Ratio</u>	<u>Cost</u>	<u>Cost Component</u>
	\$	%	%	%
Long-term debt	828,276,000	55.89	8.81	4.92
Preferred Equity	94,291,000	6.36	7.40	0.47
Common Equity	<u>559,500,000</u>	<u>37.75</u>	14.20	<u>5.36</u>
	<u>\$1,482,067,000</u>	<u>100.00</u>		<u>10.75</u>

The overall rate of return allowed in the previous Board decision of December 1976 was 10.2 per cent. In 1977, the Applicant achieved an interest coverage of slightly over 2 times, that is, earned return before interest was twice the interest expense.

With an overall rate of return of 10.75 per cent and taking into consideration the change to the normalized method of accounting for income taxes, the interest coverage would be approximately 3.4 times. The Board considered this coverage to be adequate at the present time and that it will lead to an improved credit standing.

Capital Structure

In the upcoming years the Applicant anticipates potential capital expenditures of \$3.5 billion for planned system extensions and improvements and other gas pipeline projects. An expert financial witness for the Applicant expressed the opinion that TransCanada should maintain a common equity component at a level in excess of 35 per cent to provide an adequate base upon which to finance future capital requirements.

The Board recognizes the Company's need to maintain financial integrity and that the efficient process of raising external capital occurs, of necessity, in a somewhat lumpy fashion making the task of attaining precise desirable capital structure ratios difficult. Nevertheless, the Board felt that the common equity component of the Applicant's

capital structure has reached and exceeded the upper end of what might be considered to be an optimal range of 25 to 35 per cent. The Board, at this time, encourages TransCanada to restrain any growth in its common equity component of capital structure.

Consistent with the Board decisions on normalized income taxes and the various elements of the overall rate of return, the Board noted that the following approximate picture would emerge under different capitalizations, all based on a rate of return before taxes on rate base of 16.58 per cent. Where debt has been substituted for common equity in the capital structure, the current rate for long term debt has been used.

<u>Percent of Common Equity in Capital Structure</u>	<u>Return on Common Equity</u>	<u>Times Pre-Tax Interest Coverage Ratio</u>
37.75% *	14.20%	3.37
35.00	14.91	3.18
25.00	18.84	2.66

* present capital structure

Given the approved overall rate of return; from the above cases - 25 per cent and 35 per cent common equity

respectively - it appears that it would be advantageous, from the point of view of rate of return on common equity, to have increased financial leverage. At the same time, it was noted that the pre-tax interest coverage ratios, while declining, appeared to be adequate.

A comparison of the rates of return previously authorized, applied for, and authorized in this Decision, is provided in Appendix III.

ALLOWABLE COST OF SERVICE

TransCanada submitted its estimated cost of service for a test year commencing 1 August 1978 and revised its estimate during the course of the hearing.

A summary of the allowable cost of service authorized by the Board is shown below. Details of Board adjustments are provided in the earlier chapters of these Reasons for Decision. Appendix IV shows the functional distribution and classification of the allowable cost of service for rate making purposes.

Allowable Cost of Service
Test Year 1 August 1978 to 31 July 1979

	<u>Application As Filed</u>	<u>Application As Revised*</u>	<u>NEB Adjustments</u>	<u>Authorized by NEB</u>
Cost of Gas Sold	\$1,344,999,411	\$1,326,273,506	\$176,383,109	\$1,502,656,615
Transmission by Others	103,035,523	105,314,020	851,204	106,165,224
Operation and Maintenance	125,290,126	125,394,897	(674,239)	124,720,658
Depreciation	51,707,332	51,592,883	(60,822)	51,532,061
Taxes Other Than Income Taxes	14,206,329	14,206,329	-	14,206,329
Other Operating Income	(3,249,991)	(3,368,867)	(126,900)	(3,495,767)
Miscellaneous Revenue	(11,076,455)	(10,368,080)	(431,712)	(10,799,792)
Total Cost of Service (Excluding Income Taxes and Return)	<u>\$1,624,912,275</u>	<u>\$1,609,044,688</u>	<u>\$175,940,640</u>	<u>\$1,784,985,328</u>
Income Taxes - Amortization	22,784,641	23,342,185	(23,342,185)	-
Income Taxes - Current	74,821,165	76,734,157	(8,392,677)	68,341,480
Return @ 10.9 %	147,822,334	147,603,332	(147,603,332)	-
Return @ 10.75%	-	-	144,767,053	144,767,053
Net Cost of Service	<u>\$1,870,340,415</u>	<u>\$1,856,724,362</u>	<u>\$141,369,499</u>	<u>\$1,998,093,861**</u>

* This column incorporates revisions to the application made by TransCanada based on matters raised in the course of the hearing.

** Equals allowable revenue from rates.

PAN-ALBERTA SUBMISSION

Pan-Alberta provided evidence directed towards establishing that it was at a competitive disadvantage with TransCanada.

Although the separate components of its case could not often be distinguished, in essence they seemed to be based on:

- (i) Gaz Métro transportation contracts relating to Pan-Alberta gas relieved TransCanada of significant business risks (estimated at 4.5 cents per Mcf) and, in some undefined way, Pan-Alberta should receive part of the return on equity and income taxes awarded to TransCanada. (Pan-Alberta rejected the view that TransCanada's return should be reduced if its risks were reduced.)
- (ii) Pan-Alberta's marketing costs had to be recovered from its Alberta cost of service whereas those for TransCanada were included in its cost of service outside of Alberta. Since there is a common imputed Alberta border price, this resulted in a netback on Pan-Alberta gas which placed it at a disadvantage with producers.

(iii) Pan-Alberta implied that TransCanada allocated an insufficient percentage of its head office salaries to the gas purchasing functions.

In summary, Pan-Alberta claimed it should receive compensation of five cents per Mcf, equivalent to \$645,000 in the test year from TransCanada.

Pan-Alberta claimed that its contract with Gaz Métro relieved TransCanada of significant business risks. Pan-Alberta indicated that TransCanada's business risks which were reduced relate to both the gas supply and marketing side of its business.

It would appear that it is the investors in the assets of TransCanada, in effect the pipeline for the transmission of the gas, who bear the business risk of that Company's enterprise. On the supply side, it would appear to the Board that substitution of a Pan-Alberta producer contract for a TransCanada producer contract might relieve TransCanada of take-or-pay obligations, but this is clearly an Alberta matter as illustrated by TransCanada seeking to recover carrying charges in respect of those obligations in its Alberta cost of service. Secondly, failure of a producer to perform affects the pipeline in a similar way, whether the contract is with Pan-Alberta or with TransCanada. The major supply risk to the pipeline, however, would appear to relate to the deliverability of Alberta gas as a whole over the

next, say, twenty or more years, and the Pan-Alberta producer contract does not appear to affect that risk significantly. Likewise on the marketing side, the substitution of a transportation contract with Gaz Métro for a sale contract by TransCanada to Gaz Métro again appeared to have little bearing on the marketing risks of the pipeline. Both types of contract contain take-or-pay provisions or equivalent, and the competitiveness of gas in the Montreal market was unaffected by the change in contracts since the delivered price to the market was unchanged whether TransCanada or Gaz Métro supplied the gas. Pan-Alberta did not identify how part of TransCanada's return and taxes related to assets outside of Alberta which are included in its cost of service outside of Alberta could be transferred to TransCanada's Alberta cost of service, and how this could be permitted under Part IV of the National Energy Board Act.

For the above reasons, the Board has found that Pan-Alberta did not make a case for its proposed treatment of business risk.

On marketing costs, Pan-Alberta failed to establish either the dollar value of TransCanada's marketing costs or that they were significant. Even if Pan-Alberta were able to establish a case for some relief, it failed to demonstrate

how the relief could be granted with respect to marketing costs which would be compatible with the Petroleum Administration Act, the Federal/Alberta Natural Gas Pricing Agreement, and Part IV of the National Energy Board Act.

Likewise, Pan-Alberta failed to demonstrate that the method used by TransCanada to allocate its head office costs to the Alberta cost of service and to the cost of service outside Alberta was unreasonable.

In conclusion, the evidence indicated that there appeared to be no significant business risks, marketing or overhead costs included in TransCanada's Canadian cost of service that could be reduced as a result of Pan-Alberta's supply and marketing activities in connection with its Gaz Métro contract.

RATE DESIGN AND OTHER TARIFF MATTERSGeneral

TransCanada proposed to modify its rate design to adjust for certain effects caused by the inclusion of income taxes in its cost of service. Cost allocation of income taxes on a variable Mcf basis was proposed for rate making purposes to avoid the anomalous situation, due to a single reference price at the Toronto city gate, of having the average sales rates decreasing in all zones west of the Eastern Zone when the average transmission costs are increased by the inclusion of income taxes. It was also to avoid increasing the demand charge in its rates, which TransCanada argued would have an adverse impact on such distributors as Gaz Métro who operate at less than 100 per cent load factor.

The variable Mcf basis of cost allocation, in the Board's view, is not related to the way income taxes are incurred. Income taxes are based on the return on equity which is part of the return on rate base and which relates to the transmission and metering functions. The effect of TransCanada's proposal is a system-wide tilting of rates causing a distortion in the transportation tolls of Saskatchewan Power and Consolidated, as well as an arbitrary allocation of costs to exports.

It is the decision of the Board that the well established basis of allocating costs first to domestic users and to exports and then to domestic users within a zone be preserved, and that this will best be achieved if income taxes are allocated on a fixed Mcf/mile basis and functionalized in the same way as the return on rate base (see Appendix IV). Any tilting of rates by transferring fixed costs into the commodity component of rates should be achieved explicitly in the rate design function.

TransCanada requested the adoption of a deferral clause for income taxes for accounting and rate making purposes. This was to ensure full cost recovery using a variable cost allocation for income taxes in rate design.

The Board has denied TransCanada's request to adopt a deferral clause for income taxes since the Board's decision (see above) to allocate income taxes on a fixed Mcf/mile basis removed the need for such provision.

The issues on rate design centered on the competitive disadvantage of natural gas in the Montreal market. A recent market survey indicated that natural gas had an average disadvantage for the market as a whole of 22.7 cents per Mcf and a disadvantage of 38.1 cents per Mcf in the large industrial firm sector. The main competition arises from imported fuel oil and fuel oil derived from imported

crude oil. In addition, natural gas used in the residential and commercial markets is subject to a provincial sales tax of 8 per cent, but fuel oil does not attract any such tax.

Gaz Métro made rate design proposals which transferred part of the fixed costs from the demand component of the Eastern Zone CD rate into the commodity component while retaining a single CD rate level without a take or pay provision. This shifted part of the cost burden in the Eastern Zone from Gaz Métro on to the other distributors in that zone who operate at a higher load factor, and it had a consequential effect of causing a small reduction in the imputed Alberta border price.

The Board recognizes the preference of distributors for lower demand charges and higher commodity components in the rate design, since it reduces their fixed obligations. However, in the Board's view, tilting of rates by transferring part of the fixed costs into the commodity component of the rate has little effect on the average cost of natural gas and, therefore, on its competitiveness in the market place. Such a proposal raises other technical problems in the absence of a rate design with multiple CD levels and take or pay provisions.

The Board understands the current situation wherein natural gas is at a disadvantage in the Montreal market.

However, the Board has little flexibility to depart from cost-based rates because the Federal/Alberta Natural Gas Pricing Agreement requires all Alberta gas sold in Canada but outside Alberta to have the same imputed Alberta border price, and the Petroleum Administration Act has, as a purpose, "to achieve a uniform price, exclusive of transportation and service costs, for gas used in Canada outside its province of production". Therefore, the Board has concluded that the competitive disadvantages of natural gas in the Montreal area cannot be resolved through minor adjustments in rate design, but rather requires consideration of the more fundamental problems of fuel oil availability and pricing, sales tax, and pricing of electricity relative to gas in the residential market.

For these reasons, the Board does not accept Gaz Métro's rate design proposals and has decided to retain cost-based rates.

AOI Rates

TransCanada proposed that the rates for AOI service be based on the incremental costs associated with providing this service. AOI rates based on incremental costs are significantly lower than present AOI rates which are set at a level equal to 100 per cent of the CD rate at 100 per cent load factor. The Applicant believed that lower AOI rates

would help promote additional sales which is desirable because of the excess current availability of gas in Alberta. TransCanada contended that it would neither lose nor make any profit from AOI sales with rates based on incremental costs.

The Applicant also proposed two different rates for AOI service within the Northern Zone - one for gas sold in the Sault Ste. Marie Delivery Area and the other for gas sold in the Northern Delivery Area. The rates for AOI gas sold in the Sault Ste. Marie Delivery Area included the commodity component of the transportation rates on the Great Lakes system.

The Board has noted that the general terms and conditions of TransCanada's tariff require that purchase obligations under other service contracts must be met on any day before AOI purchases can be made. In view of the present gas supply situation, the Board has approved the rate design methodology proposed by the Applicant in respect of AOI service.

ACQ Differential

TransCanada initially proposed an ACQ rate differential of 6.4¢/Mcf based on what it would cost TransCanada to provide the storage and transportation facilities in order to sell, as CD service, the 218 Bcf of ACQ service. During the course of the hearing, TransCanada revised the differential to 6.7¢/Mcf based on updated

transportation and storage rates on the Union system.

The Board has found that due to the allowed rate of return and the increase in the Toronto city gate price a differential of 6.8¢/Mcf is appropriate.

Sales Meter Station Charges

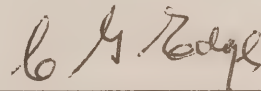
In the course of the hearing Northern and Central requested revision of the formula of Section IV, paragraph 2, of the general terms and conditions of TransCanada's tariff. This formula provides a basis for computing sales meter station charges applicable to delivery points where the annual volume delivered is below 183,000 Mcf. The Applicant estimated the total revenue from sales meter station charges to be \$93,000 which it credited to the cost of service as part of miscellaneous revenue. During the hearing, TransCanada suggested that the formula could be revised by replacing 183,000 Mcf by 90,000 Mcf, but later informed the Board that it did not propose to amend its application. The Applicant intends to discuss this matter with various customers and if resolved, file a tariff change at a later date.

The Board is of the view that the tariff formula should be revised to incorporate the 90,000 Mcf and has used \$30,000 for revenue from sales meter station charges as a credit to the cost of service for the test year. The Applicant is directed to change the 183,000 Mcf in its formula to 90,000 Mcf.

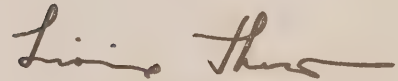
DISPOSITION

Order No. TG-1-78 dated 27 July, 1978, which is shown as Appendix II, and Order No. TG-2-78 also dated 27 July 1978, which is shown as Appendix VI, were predicated upon these Reasons for Decision.

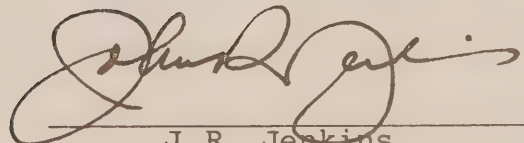
The foregoing chapters, together with Order No. TG-1-78, which inter alia orders TransCanada to file and serve new tariffs, tolls and rates conforming therewith, and Order No. TG-2-78, on accounting matters set forth our Reasons for Decision and our Decision in this matter.



C.G. Edge,
Presiding Member



L.M. Thur
Member



J.R. Jenkins,
Member

ADDENDUM

On page 2-13 of these Reasons for Decision, the Board permitted current normalized income taxes of \$68,341,480 to be included in the allowable costs of service for the test year commencing on 1 August 1978, rather than accepting the Applicant's figure of \$76,734,157. Since these Reasons were prepared and the Board's Order TG-1-78 made, the Board has re-examined the derivation of the amount of the allowable current normalized taxes and has found that the provision for normalized taxes should have been \$70,822,082 instead of the \$68,341,480 allowed in the Board's decision, an increase of \$2,480,602. The derivation of the \$70,822,082 is shown in the following schedules:

Normalized Income Tax for Test Year

Schedule 1

	<u>Application As Revised</u>	<u>Per NEB</u>
Return	<u>147,603,332</u>	<u>144,767,053</u>
Operating Income - Transmission System	147,603,332	144,767,053
- Alberta Cost of Service	<u>3,761,755</u>	<u>4,266,699</u> (1)
	<u>151,365,087</u>	<u>149,033,752</u>
<u>Other Income</u>		
Allowance for Funds used During Construction	836,000	836,000
Dividend Income from Great Lakes Transmission Co.	5,661,000	5,661,000
Other Interest	<u>1,748,000</u>	<u>1,748,000</u>
	<u>8,245,000</u>	<u>8,245,000</u>
Income before Financial Charges	<u>159,610,087</u>	<u>157,278,752</u>
<u>Financial Charges</u>		
Interest Expense	72,815,000	75,707,617
Amortization of Debt Discount and Expense Less Gain on Purchase of Debt	<u>729,000</u>	<u>729,000</u>
	<u>73,544,000</u>	<u>76,436,617</u> (2)
Net Income for Test Period	<u>86,066,087</u>	<u>80,842,135</u>
<u>Additions not Subject to Timing Differences</u>		
Deemed Dividend - Interest on Income Debentures	1,840,000	- (3)
Non-Allowable Portion of Amortization of Debt Discount and Expense	<u>309,874</u>	<u>309,874</u>
	<u>2,149,874</u>	<u>309,874</u>
	<u>88,215,961</u>	<u>81,152,009</u>
<u>Deduct Items Not Subject to Timing Differences</u>		
Dividend Income from Great Lakes Transmission Co.	5,661,000	5,661,000
Capital Gains (Losses) on Securities	(426,127)	(426,127)
Eligible Capital Expenditures	154,588	154,588
3% Inventory Allowance	<u>1,686,837</u>	<u>2,006,248</u> (4)
	<u>7,076,298</u>	<u>7,395,709</u>
Normalized Taxable Income	81,139,663	73,756,300
Add: Owning Cost of Investments	<u>1,145,406</u>	- (5)
Normalized Taxable Utility Income for Test Year	<u>82,285,069</u>	<u>73,756,300</u>
Amount Required to be included in Cost of Service to Provide for Payment of Current Normalized Income Taxes	82,285,069 x $\frac{.4936}{.5064}$	80,205,194
	73,756,300 x $\frac{.4936}{.5064}$ (97.472%)	71,891,741
Interest on Deferred Taxes Prorated	<u>1,515,424</u>	- (6)
	<u>78,689,770</u>	<u>71,891,741</u>
Allocation of Tax to Alberta	<u>(1,955,613)</u>	<u>(969,659)</u> (7)
Normalized Income Tax for Test Year	<u>76,734,157</u>	<u>70,822,082</u>

- Notes: (1) See Schedule 2.
 (2) See Schedule 3.
 (3) Included by NEB in cost of debt.
 (4) See Schedule 4.
 (5) Disallowed because interest costs applicable to Great Lakes can be used to reduce the tax applicable to utility operations because the dividends from Great Lakes are not subject to tax.
 (6) Not required because deferred taxes are deducted from rate base.
 (7) See Schedule 5.

Operating Income - Alberta Cost of Service

Net Plant Investment in Test Year	\$ 212,457
Cash Working Capital	<u>1,119,370</u>
	\$ <u>1,331,827</u>
Line Pack Gas in AGTL System 2,844,813 MMBtu x \$1.29977 (1)	3,697,603
Gas Stored underground in Alberta 26,666,867 MMBtu x \$1.29977 (1)	<u>34,660,794</u>
	\$ <u>38,358,397</u>
Total Rate Base in Alberta	<u>39,690,224</u>
Return at 10.75%	<u>\$ 4,266,699</u>

(1) Adjusted to reflect new imputed Alberta Border Price of \$1.40977 per MMBtu, less estimated cost of transmission within Alberta.

Financial Charges as Adjusted by NEB

Interest Expense (as per Applicant)	\$ 72,815,000
Amortization of debt discount and expense less gain on purchase of debt (as per Applicant)	<u>729,000</u>
	\$ 73,544,000
<u>Add: NEB Adjustment</u>	
Adjustment re Income debentures	1,278,000
Reduction from $10\frac{1}{4}\%$ to 10% on unfunded debt of \$18,398,000	(46,000)
Increase in interest cost due to the increase in unfunded debt required by the disallowance of catch-up taxes, and interest caused by replacement of equity with debt because of lower allowable return on equity. (\$16,606,170 at 10%)	<u>1,660,617</u>
	<u><u>\$ 76,436,617</u></u>

3% Inventory Allowance

	<u>Application As Revised</u>	<u>Per NEB</u>
<u>Inventory - Outside Alberta</u>		
Materials and Supplies	\$ 13,086,602	\$ 13,086,602
Line Pack Gas	13,618,754	15,429,933
	<u>\$ 26,705,356</u>	<u>\$ 28,516,535</u>
<u>Inventory - in Alberta</u>		
Line Pack Gas - AGTL System		
2,844,813 MMBtu x \$1.12429	3,198,395	
2,844,813 MMBtu x \$1.29977		3,697,603
Gas Stored Underground in Alberta		
26,666,867 MMBtu x \$1.12429	29,981,292	
26,666,867 MMBtu x \$1.29977		34,660,794
	<u>\$ 33,179,687</u>	<u>\$ 38,358,397</u>
Total Inventory	\$ 59,885,043	\$ 66,874,932
Allowance	\$ 1,686,837 ⁽¹⁾	\$ 2,006,248

(1) Applicant should presumably have included 3% of \$59,885,043 (\$1,796,551) rather than \$1,686,837.

Normalized Income Taxes Allocated to
Alberta Cost of Service

	<u>Application As Revised</u> ⁽⁴⁾	<u>Per NEB</u>
Percentages of total Operating Income on Schedule 1	<u>2.49%</u>	<u>2.863%</u>
Operating Income - Alberta Cost of Service	\$ <u>3,761,755</u>	\$ <u>4,266,699</u>
<u>Other Income</u>		
Allowance for Funds used During Construction		550 (1)
Other Interest		50,045 (2)
<u>Financial Charges</u>		(2,188,380) (2)
<u>Additions not Subject to Timing Differences</u>		
Non-Allowable Amortization of Debt Discount and Expense		8,872 (2)
<u>Deductions not Subject to Timing Differences</u>		
Capital Gains (Losses) on Securities		12,200 (2)
Eligible Capital Expenditures		(4,426) (2)
3% Inventory Allowance		(1,150,752) (3)
		<u>(3,271,891)</u>
Normalized Utility Taxable Income		<u>\$ 994,808</u>
Normalized Income Tax		
$(994,808 \times \frac{.4936}{.5064})$	-	969,659
Normalized Income Taxes Allocated to Alberta	<u>\$ 1,955,613</u>	<u>\$ 969,659</u>

(1) Based on approximate proportion of
Alberta plant additions to total plant
additions for the test year.

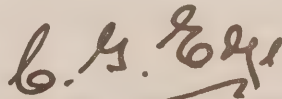
(2) Based on proportion of Alberta Operating
income to total operating income for the
test year.

(3) 3% of inventory in Alberta - see Schedule 4.

(4) Further details of Applicant's calculations not available.

The Board believes that TransCanada should be permitted to recover the full normalized taxes of \$70,822,082 in respect of the test year. However, because prescribed prices under the Petroleum Administration Act based on a new Federal/Alberta Agreement are in process of being implemented, such recovery cannot be achieved through the rates and tolls based on this Decision which are incorporated in the prescribed prices now being implemented. TransCanada is therefore authorized to set up a "deferral account" in which to record each month one-twelfth of the increase in normalized taxes over the amount provided for in the foregoing Decision, plus carrying charges at one-twelfth of the sum of the prime commercial bank rate plus one per cent.

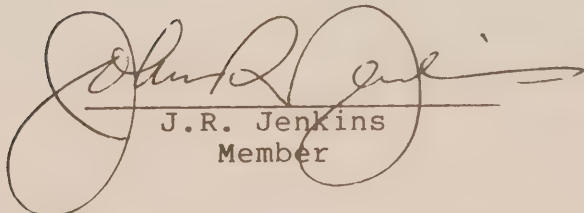
The Board intends to adjust TransCanada's rates to reflect this finding on normalized taxes when new prices are next prescribed under the Petroleum Administration Act. In the interval the Board has amended Order No. TG-2-78 by the making today of Order No. AO-1-TG-2-78 for the accounting action needed to provide the basis for this forthcoming change.



C.G. Edge
Presiding Member



L.M. Thur
Member



J.R. Jenkins
Member



ORDER NO. RH-1-78

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder, and

IN THE MATTER OF an application by TransCanada
PipeLines Limited (hereinafter called "the
Applicant") for certain orders respecting rates
and tolls under Sections 50 and 53 of the
National Energy Board Act, filed with the Board
under File No. 1562-T1-11.

B E F O R E the Board on Monday, the 10th day of April, 1978.

UPON reading the application filed on behalf of the
Applicant dated the 28th day of February, 1978, firstly, under
Sections 50 and 53 of the National Energy Board Act, for orders
fixing the just and reasonable rates or tolls the Applicant may
charge for or in respect of gas sold by the Applicant in Canada and
for transportation services to Saskatchewan Power Corporation,
Consolidated Natural Gas Limited and Gaz Métropolitain, inc., and
disallowing any existing tariffs or rates or tolls or portions thereof
that are inconsistent with the just and reasonable rates or tolls so
fixed and, secondly, for certain amending orders under Section 53 of
the Petroleum Administration Act and the Regulations made pursuant to
Part III of the said Act, for certain orders approving the price
to be paid by the Applicant to acquire gas for removal from the
Province of Alberta and revoking any previous orders inconsistent
therewith;

IT IS ORDERED THAT:

1. That portion of the application dated the 28th day of February, 1978, made under Sections 50 and 53 of the National Energy Board Act (hereinafter referred to as "the Application") will be heard at a public hearing commencing at 9:30 a.m. local time, on Wednesday, the 24th day of May, 1978, in the Hearing Room of the National Energy Board, Room 940, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, hereinafter referred to as "the Hearing". Such proceedings will be conducted in either of the two official languages and simultaneous interpretation will be provided.
2. The Applicant shall, forthwith, serve a true copy of the Application, if not already served, and a true copy of this Order, upon all the Applicant's customers, the Attorney General of the Provinces of Alberta, Saskatchewan, Manitoba, Ontario and Quebec, the Canadian Gas Association, the Canadian Petroleum Association, the Independent Petroleum Association of Canada, and, as soon as possible, upon such other persons who have intervened pursuant to paragraph 4 hereof.
3. Notice of the Hearing in the form prescribed by the Board as set forth in the Notice attached to and which forms part of this Order shall be published not later than the 20th day of April, 1978, in one issue each of "The Herald" in the City of Calgary and "The Journal" in the City of Edmonton, both in the Province of Alberta, "The Leader-Post" in the City of Regina, in the Province of Saskatchewan; "The Winnipeg Free Press" and "The Tribune" in the City of Winnipeg, Province of Manitoba; "The Globe and Mail", "Toronto Star" and "The Financial Post", in the City of Toronto, "The Citizen" and "Le Droit"

... 3

in the City of Ottawa, all in the Province of Ontario; "The Gazette", "Le Devoir" and "Financial Times of Canada" in the City of Montreal, Province of Quebec, and as soon as may be possible in the Canada Gazette.

4. Any person intending to oppose or intervene in the said Application, shall, on or before the 10th day of May, 1978, file with the Secretary of the Board thirty (30) copies of a written statement containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Application, which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent, and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 10th day of May, 1978, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon each of the parties named in paragraph 2 of this Order.

5. The Applicant shall prepare direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses, and shall file fifteen (15) copies thereof with the Board on or before the 1st day of May, 1978, and shall serve as soon as possible, one (1) copy of the same upon each party intervening pursuant to paragraph 4 hereof.

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- 4 -

6. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence, shall prepare written direct evidence, and shall, on or before the 17th day of May, 1978, file fifteen (15) copies thereof with the Board and serve one (1) copy of the same upon the Applicant, and, as soon as possible, upon each intervenor pursuant to paragraph 4 hereof, a list of which intervenors will be available at the Board on the 11th day of May, 1978.

7. The Rules and Procedures set out in Appendix I to this Order shall govern the conduct of the Hearing.

8. Any interested party may examine a copy of the Application and the submissions filed therewith at the office of:

National Energy Board
Trebla Building
473 Albert Street
Ottawa, Ontario
K1A OE5

or at the offices of the Applicant at the following addresses:


TransCanada PipeLines Limited
Commerce Court West
Toronto, Ontario
M5L 1C2

or

407-8th Avenue South West
Calgary, Alberta
T2P 2M7

DATED at the City of Ottawa, in the Province of Ontario,
this 10th day of April, 1978.

NATIONAL ENERGY BOARD



Brian H. Whittle
Secretary

NATIONAL ENERGY BOARD

NOTICE OF HEARING

TAKE NOTICE THAT TransCanada PipeLines Limited, hereinafter called "the Applicant" has filed an application dated the 28th day of February, 1978, firstly, under sections 50 and 53 of the National Energy Board Act, for orders fixing the just and reasonable rates or tolls the Applicant may charge for or in respect of gas sold by the Applicant in Canada and for transportation service to Saskatchewan Power Corporation, Consolidated Natural Gas Limited and Gaz Métropolitain, inc., and disallowing any existing tariffs or rates or tolls or portions thereof that are inconsistent with the just and reasonable rates or tolls so fixed, and, secondly, under section 53 of the Petroleum Administration Act for certain orders approving the price to be paid by the Applicant to acquire gas for removal from the Province of Alberta and revoking any previous orders inconsistent therewith.

THE BOARD HAS ORDERED THAT:

1. That portion of the application dated the 28th day of February, 1978, made under Sections 50 and 53 of the National Energy Board Act (hereinafter referred to as "the Application") will be heard at a public hearing commencing at 9:30 a.m. local time, on Wednesday, the 24th day of May, 1978, in the Hearing Room of the National Energy Board, Room 940, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario. Such proceedings will be conducted in either of the two official languages and simultaneous interpretation will be provided.

2. Any person intending to oppose or intervene in the said Application, shall, on or before the 10th day of May, 1978, file with the Secretary of the Board thirty (30) copies of a written statement containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Application, which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent, and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 10th day of May, 1978, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorneys General of the Provinces of Alberta, Saskatchewan, Manitoba, Ontario and Quebec, and the Canadian Gas Association, the Canadian Petroleum Association and the Independent Petroleum Association of Canada.

3. Any party who has intervened pursuant to paragraph 2 hereof and who wishes to present direct evidence, shall prepare written direct evidence, and shall, on or before the 17th day of May, 1978, file fifteen (15) copies thereof with the Board and serve one (1) copy of the same upon the Applicant, and, as soon as possible, upon each of the parties who has intervened pursuant to paragraph 2 hereof, a list of which will be available at the Board on the 11th day of May, 1978.

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4. Any interested party may examine a copy of the Application and the submissions filed therewith at the office of:

National Energy Board
Trebla Building
473 Albert Street
Ottawa, Ontario
K1A OE5

or at the offices of the Applicant at the following addresses:

TransCanada PipeLines Limited
Commerce Court West
Toronto, Ontario
M5L 1C2

407-8th Avenue South West
Calgary, Alberta
T2P 2M7

DATED at the City of Ottawa, in the Province of Ontario,
this 10th day of April, 1978.

NATIONAL ENERGY BOARD

Brian H. Whittle,
Secretary.

RULES AND PROCEDURES

1. In these Rules, "party" means TransCanada PipeLines Limited and any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-1-78.
2. At the public hearing of the Application by TransCanada PipeLines Limited, the evidence and submissions shall be heard in the following order:
 - (1) Issues relating to income taxes;
 - (2) Rate of Return;
 - (3) Rate base and Cost of Service excluding return, and rate design and other tariff matters.
3. The Board shall hear all of the evidence on each of the three items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board shall first hear all of the evidence of the Applicant in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same.
4. Upon the completion of the evidence on all three items referred to in paragraph 2 of these Rules, the Board shall hear the argument of all parties.
5. Any party who wishes to obtain additional information from the Applicant in respect of matters raised in the Application, may request in writing that such information be provided and the Applicant shall, as soon as possible, make a written response to that request. Wherever possible, in order to expedite the Hearing, these requests and responses should be made before the commencement of the Hearing.

6. Where a party files and serves written direct evidence pursuant to paragraphs 5 or 6 of Order No. RH-1-78, any other party may request in writing that the party filing such written direct evidence provide additional information respecting the matters dealt with in the direct evidence and the party to whom written request is made shall, as soon as possible, make a written response to that request.

7. Both the request in writing and the response thereto, referred to in paragraphs 5 and 6 of these Rules, shall be filed as exhibits at the hearing.

8. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board, and the motion shall be heard by the Board at the Hearing on a date to be fixed by it.

9. The order of appearances of parties and sequence of adducing evidence and conducting cross-examination shall be announced by the Board on or before the opening of the hearing.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-1-RH-1-78

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder, and

IN THE MATTER OF an application by TransCanada
PipeLines Limited (hereinafter called "the
Applicant") for certain orders respecting rates
and tolls under Sections 50 and 53 of the
National Energy Board Act, filed with the Board
under File No. 1562-T1-11.

B E F O R E the Board on Friday , the 5th day of May, 1978.

UPON it appearing that an error exists in the last
sentence of paragraph 4 of Order No. RH-1-78 respecting the
service by respondents or intervenors of their reply or
submission and supporting information, particulars or documents,
in relation to the application of TransCanada PipeLines Limited;

AND UPON it appearing necessary to change, alter and
vary the said Order to clarify the said requirements for
service;

IT IS ORDERED THAT:

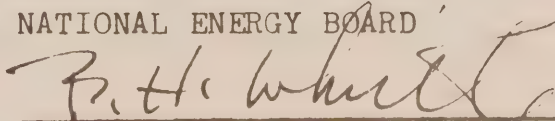
Order No. RH-1-78 be altered, changed and varied
by deleting paragraph 4 thereof and substituting therefor
the following:

"4. Any person intending to oppose or intervene in
the said Application, shall, on or before the 10th
day of May, 1978, file with the Secretary of the
Board thirty (30) copies of a written statement

containing his reply or submission, together with any supporting information, particulars or documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the Application, which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent, and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 10th day of May, 1978, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant and one (1) copy each upon the Attorney General of the Provinces of Alberta, Saskatchewan, Manitoba, Ontario and Quebec, the Canadian Gas Association, the Canadian Petroleum Association and the Independent Petroleum Association of Canada."

DATED at the City of Ottawa, in the Province of Ontario,
this 5th day of May, 1978.

NATIONAL ENERGY BOARD



Brian H. Whittle,
Secretary

ORDER NO. TG-1-78

IN THE MATTER OF the National Energy Act and the Regulations made thereunder, and

IN THE MATTER OF an application by TransCanada PipeLines Limited (hereinafter called "the Applicant") for certain orders respecting rates and tolls under Sections 50 and 53 of the National Energy Board Act, filed with the Board under File No. 1562-T1-11.

B E F O R E:

C.G. Edge,)	
Vice-Chairman	)	Thursday, the 27th day
L.M. Thur,	)	of July, 1978.
Associate Vice-Chairman)	
J.R. Jenkins)	
Member)	

UPON an application by the Applicant dated the 28th day of February, 1978, inter alia, for Orders under Sections 50 and 53 of the National Energy Board Act fixing the just and reasonable rates or tolls the Applicant may charge for or in respect of gas sold by the Applicant in Canada and for transportation services to Saskatchewan Power Corporation, Consolidated Natural Gas Limited and Gaz Métropolitain, inc., and disallowing any existing tariffs or rates or tolls or portions thereof that are inconsistent with the just and reasonable rates or tolls so fixed, effective August 1, 1978;

AND UPON the Board having heard the evidence and submissions relating to the said application at a hearing commencing on 24 May 1978;

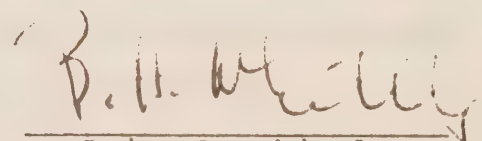
IT IS ORDERED THAT:

1. The Applicant shall charge, in respect of gas sold by it in Canada and in respect of its T-Service and Transportation Service, the rates and tolls specified in Schedule A hereto.
2. The formula appearing in Section IV, paragraph 2 of the General Terms and Conditions of the Applicant's tariff, providing a basis for computing sales meter station charges be and the same is hereby revised by replacing 183,000 Mcf with 90,000 Mcf.

AND IT IS FURTHER ORDERED THAT:

3. The Applicant shall forthwith file with the Board and serve upon all parties to the hearing of this application, new tariffs, tolls and rates conforming with this Order.
4. Notwithstanding the filing of the said new tariffs, tolls and rates, the same shall remain suspended and be of no effect until the 1st day of August, 1978.
5. Those provisions of the Applicant's tariffs, tolls and rates, or any portion thereof, that are contrary to any Order of the Board including this Order, be and the same are hereby disallowed, such disallowance to be effective on the 31st day of July, 1978.

NATIONAL ENERGY BOARD



Brian H. Whittle,
Secretary

SCHEDULE A

TRANSCANADA PIPELINES LIMITED
RATES AND TOLLS FOR CANADIAN SALES, TRANSPORTATION & T-SERVICE
EFFECTIVE: 1 AUGUST 1978

<u>PARTICULARS</u>	<u>RATE SCHEDULE</u>	<u>TRANSPORTATION DEMAND RATE (\$/Mcf/Mo)</u>	<u>TRANSPORTATION COMMODITY RATE (¢/Mcf)</u>	<u>IMPUTED ALBERTA BORDER PRICE (¢/MMBtu)</u>
<u>SALES SERVICE</u>				
Saskatchewan Zone	CD	1.040	0.964	140.977
	AOI	—	4.202	140.977
	SGS	—	9.511	140.977
	PS	—	192.000	140.977
	TWS	—	64.000	140.977
Manitoba Zone	CD	4.200	4.425	140.977
	AOI	—	11.555	140.977
	PS	—	192.000	140.977
	TWS	—	64.000	140.977
Western Zone	CD	6.808	7.240	140.977
	AOI	—	17.166	140.977
	PS	—	192.000	140.977
	TWS	—	64.000	140.977
Northern Zone	CD	10.770	11.502	140.977
	AOI-NDA*	—	26.985	140.977
	AOI-SSMDA**	—	31.699	140.977
	PS	—	192.000	140.977
	TWS	—	79.000	140.977
Eastern Zone	CD	13.401	14.670	140.977
	AOI	—	31.194	140.977
	ACQ	—	51.928	140.977
	PS	—	272.000	140.977
	TWS	—	84.000	140.977

T-SERVICE

<u>Gaz Métropolitain, inc.</u>	13.401	4.060
(Fuel Ratio 0.0756)		

TRANSPORTATION SERVICESaskatchewan Power Corporation

Bayhurst & Liebenthal	1.805	1.850
Success	1.351	1.375
Herbert	0.354	0.279
<u>Consolidated Natural Gas</u>	3.833	4.012

* Northern Delivery Area
 ** Sault Ste Marie Delivery Area

TransCanada Pipelines Limited
Comparison of Components of Rate of Return and
Interest Coverage Approved in This Decision with Those
Previously Authorized and Those Applied For

	Previously Authorized			Applied For			Authorized in This Decision		
	Capital Structure %	Cost Rate %	Cost Component %	Capital Structure %	Cost Rate %	Cost Component %	Capital Structure %	Cost Rate %	Cost Component %
Debt	60.53	8.20	4.96	55.75	8.80	4.90	55.89	8.81	4.92
Preferred	6.56	7.09	0.47	6.37	7.40	0.50	6.36	7.40	0.47
Common	<u>32.91</u>	<u>14.50</u>	<u>4.77</u>	<u>37.88</u>	<u>14.50</u>	<u>5.50</u>	<u>37.75</u>	<u>14.20</u>	<u>5.36</u>
	<u>100.00</u>			<u>100.00</u>			<u>100.00</u>		
Overall Rate of Return			<u>10.20</u>			<u>10.90</u>			<u>10.75</u>
Times Pre-Tax Interest Coverage			<u>2.06</u>			<u>3.73*</u>			<u>3.37</u>

*Reflects Applicant's request to collect "catch-up" normalized income taxes.

TRANSCANADA PIPELINES LIMITED
FUNCTIONAL DISTRIBUTION AND CLASSIFICATION OF AUTHORIZED COST OF SERVICE

	<u>TOTAL</u>	<u>COST OF GAS</u>	<u>MISCELLANEOUS TRANSMISSION</u>	<u>METERING</u>	<u>FIXED</u>	<u>TRANSMISSION VARIABLE (Fuel)</u>	<u>VARIABLE (Other)</u>
Cost of Gas Sold	\$ 1,502,656,615	1,502,656,615					
Transmission by Others	106,165,224		312,349		55,212,278	25,003,194	25,637,403
Operation and Maintenance	124,720,658			2,146,267	50,983,889	63,303,420	8,287,082
Depreciation	51,532,061			542,042	50,990,019		
Taxes Other than Income	14,206,329			59,207	14,147,122		
Income Taxes	68,341,480			369,876	67,971,604		
Other Operating Income	(3,495,767)				(119,900)		(3,375,867)
Return @ 10.75%	144,767,053			781,353	143,985,700		
Total Cost of Service	\$ 2,008,893,653	1,502,656,615	312,349	3,898,745	383,170,712	88,306,614	30,548,618
Miscellaneous Revenue	(10,799,792)	(4,797,306)	(5,578)	(70,557)	(4,039,516)	(1,260,480)	(626,355)
NET COST OF SERVICE	<u>\$ 1,998,093,861</u>	<u>1,497,859,309</u>	<u>306,771</u>	<u>3,828,188</u>	<u>379,131,196</u>	<u>87,046,134</u>	<u>29,922,263</u>

DERIVATION OF THE IMPUTED ALBERTA BORDER PRICE

1. Average Transportation Charge from the Alberta Border to the Eastern Zone in ¢/MMBtu

Transportation Rates for CD Service

Transportation Commodity Rate	14.670¢/Mcf
Transportation Demand Rate	13.401\$/Mcf/Mo

Average Transportation Charge per MMBtu for
995 Btu/cf Gas Taken at 100% Load Factor

Average Transportation Charge ⁽¹⁾	59.023¢/MMBtu
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2. Derivation of the Imputed Alberta Border Price

Eastern Zone Reference Price	200.000 ¢/MMBtu
Less: Average Transportation Charge - Alberta Border to Eastern Zone	<u>(59.023)¢/MMBtu</u>

IMPUTED ALBERTA BORDER PRICE	<u><u>140.977 ¢/MMBtu</u></u>
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$$(1) \quad \frac{13.401 \times 100 \times 12}{365 \times 0.995} + \frac{14.670}{0.995} = 59.023 \text{ ¢/MMBtu}$$

ORDER NO. TG-2-78

IN THE MATTER OF the National Energy Act and the Regulations made thereunder, and

IN THE MATTER OF an application by TransCanada PipeLines Limited (hereinafter called "the Applicant") for certain orders respecting rates and tolls under Sections 50 and 53 of the National Energy Board Act, filed with the Board under File No. 1562-T1-11.

B E F O R E:

C.G. Edge,)	
Vice-Chairman	)	Thursday, the 27th day
L.M. Thur,	)	of July, 1978.
Associate Vice-Chairman)	
J.R. Jenkins,)	
Member)	

UPON an application by the Applicant dated the 28th day of February, 1978, inter alia, for Orders under Sections 50 and 53 of the National Energy Board Act fixing the just and reasonable rates or tolls the Applicant may charge for or in respect of gas sold by the Applicant in Canada and for transportation services to Saskatchewan Power Corporation, Consolidated Natural Gas Limited and Gaz Métropolitain, inc., and disallowing any existing tariffs or rates or tolls or portions thereof that are inconsistent with the just and reasonable rates or tolls so fixed, effective 1 August, 1978; and an Order approving for accounting and rate making purposes the adoption by the Applicant of normalized tax accounting in respect of current income taxes and the amortization over a

22.25 year period of deferred income tax costs arising from the prior use of flow-through tax accounting for utility income;

UPON the Board having heard the evidence and submissions relating to the said Application at a hearing commencing on 24 May 1978;

UPON the Applicant having requested in the course of the hearing the approval of certain accounting procedures for rate-making purposes;

AND UPON the Board having ordered, by Order No. TG-1-78 dated 27 July 1978, the Applicant to file, in respect of gas sold by it in Canada and in respect of its T-Service and Transportation Service, new tariffs, tolls and rates conforming therewith, to be effective 1 August 1978;

IT IS ORDERED THAT:

1. That part of the application respecting the adoption by the Applicant, for accounting and rate-making purposes, of normalized tax accounting in respect of current income taxes, be and the same is hereby granted.
2. That part of the application respecting the amortization over a 22.25 year period of deferred income tax costs arising from the prior use of flow-through tax accounting for utility income, be and the same is hereby denied.
3. The Applicant shall, effective 1 August 1978, include in its Transmission by Others deferral account a monthly adjustment for carrying charges on the month-end balance of the account, at 1/12 of the sum of the prime rate plus 1 per cent.

- 3 -

4. The Applicant's request for the adoption of an accounting procedure to establish a deferral account to record the variances between the actual costs of gas used as compressor fuel, company uses and losses and unaccounted for gas, and those reflected in rates, and to submit the balance in the said account to the Board for disposal by the Board in subsequent rate proceedings, be and the same is hereby denied.

5. The Applicant shall, effective 1 August 1978, change its method of capitalizing overhead by capitalizing only direct and indirect overhead costs which vary with the level of construction activity.

6. The Applicant's request to defer exchange variances on United States dollar debt service from par for accounting purposes, for the period commencing 1 January 1978 and ending 31 July 1978, be and the same is hereby denied.

7. The Applicant shall, effective 1 August 1978, establish a deferral account carrying interest at prime commercial bank rate plus one per cent on month-end balances, to record the variances on its United States dollar debt service from the exchange rate of \$1.00 U.S. equals \$1.11 Canadian, and shall submit the balance in the said account to the Board for disposal by the Board in the next rate proceeding.

- 4 -

8. The Applicant shall, effective 1 August 1978, establish a deferral account carrying interest at prime commercial bank rate plus one per cent on month-end balances, to record the variances between estimated and actual gains on repurchases of bonds and debentures for sinking fund purposes, and shall submit the balance in the said account for disposal by the Board in the next rate proceeding.

NATIONAL ENERGY BOARD



Brian H. Whittle,
Secretary

TG-2-78

ORDER NO. AO-1-TG-2-78

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada PipeLines Limited (hereinafter called "the Applicant") for certain orders respecting rates and tolls under Sections 50 and 53 of the National Energy Board Act, filed with the Board under File No. 1562-T1-11.

BEFORE:

C.G. Edge)	
Vice-Chairman)	
	)	on Monday, the 31st day
L.M. Thur)	
Associate Vice-Chairman	)	of July, 1978.
)	
J.R. Jenkins)	
Member)	

UPON the Board having, on the 27th day of July, 1978, made Orders No. TG-1-78 and TG-2-78 respecting the rates and tolls the Applicant may charge for gas sold by it in Canada and for transportation services performed by it, and respecting other related matters;

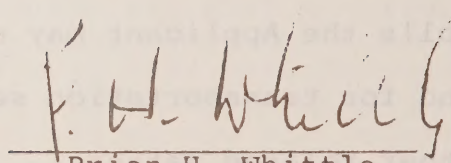
AND UPON the Board having re-examined the provision made for normalized income taxes in the Applicant's cost of service as determined by the Board for the test year commencing on the 1st day of August, 1978, which cost of service forms the basis for the derivation of the rates and tolls set forth in the said Orders, and having determined that a variation is required in the said provision for income taxes;

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1. IT IS ORDERED THAT Order No. TG-2-78 be and the same is hereby changed, altered and varied by adding thereto, after paragraph 8 thereof, the following:

"9. The Applicant shall, effective 1 August 1978, record monthly one-twelfth of the amount of \$2,480,602 in respect of normalized income taxes, plus monthly carrying charges at one-twelfth of the sum of the prime commercial bank rate plus one per cent, which amounts shall be recorded in separate sub-accounts of Accounts 179 (Other Deferred Debits) and 579 (Miscellaneous Revenue)."

NATIONAL ENERGY BOARD


Brian H. Whittle
Secretary

AO-1-TG-2-78

